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## GENERAL

### Analysis of New Development in U.S.-Soviet Relations

90ON0221A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 22, 16 Nov 89 pp 2-3

[Article by Zhuang Qubing (8369 0637 4016): "Observation of New Development in U.S.-Soviet Relations"]

#### [Text] A Beginning of New Development

U.S. and Soviet foreign ministers held talks in the state of Wyoming in the United States. The Soviet side delivered a long letter written by Gorbachev to Bush. The two sides made breakthroughs on some long-standing controversial arms control issues. They also reached an agreement on holding a summit in the late spring and early summer of 1990. Recently, the two sides declared that Bush and Gorbachev will hold an informal meeting 2 and 3 December on U.S. and Soviet naval ships in the Mediterranean to discuss current international situations and U.S.-Soviet relations. This indicates that a new development has occurred in U.S.-Soviet relations and its depth and range may surpass the period of the Reagan administration.

As soon as Bush took office in early 1989, the U.S. Government reexamined its Soviet policy and reached the decision for steady and cautious development. Shortly after, in May, Bush delivered his policy speech on "beyond containment" (that is, not only containment) and set the general principle of his Soviet policy. As the U.S.-Soviet stands on arms talks drew closer, especially as the Soviet and East European situations changed constantly, the U.S. attitude toward the Soviet Union gradually became positive. In his speech at the UN General Assembly on 25 September, Bush expressed that he was "very satisfied" with the progress achieved at the U.S.-Soviet foreign ministers' meeting. On 27 [September] he told the press again that "it is very possible" that the Strategic Nuclear Arms Reduction Treaty would be signed at the U.S.-Soviet summit in 1990. He rarely sounded so optimistic before.

During the Wyoming meeting, both sides discussed extensively such issues as arms control, regional conflicts, human rights, and bilateral relations. Through this meeting, they eliminated some major obstacles to the signing of an arms control agreement, including that strategic nuclear arms reduction negotiations need not be linked to the anti-missile defense issue; the Strategic Nuclear Arms Reduction Treaty may be signed before the anti-missile defense issue is resolved; the sea-launched cruise missile issue may be handled as a separate case; and mobile intercontinental missiles may not be banned. They also reached some agreements on the nuclear inspection issue concerning nuclear experiment and chemical weapons. In the European conventional force negotiation, which is as important as the strategic nuclear arms issue, the gap between the two sides narrowed substantially recently as compared to the

past. Besides, the Soviets decided to reduce unilaterally their troops overseas. If they continue to sign agreements in these two talks and on the issues of nuclear experiments and chemical weapons, the U.S.-Soviet arms control treaty will be a giant step forward compared to the medium-range missile treaty.

As the arms control negotiation makes greater progress, economic cooperation, cultural exchange, and personnel contacts between the United States and the Soviet Union will also develop more obviously than before. U.S. Secretary of State Baker announced recently that economic experts will be sent to the Soviet Union for consultation. There are people within the United States who suggest giving the Soviet Union most-favored-nation status. All these are reflections of new development in U.S.-Soviet relations.

#### Both Sides Need It

Such a development in U.S.-Soviet relations is, in the final analysis, needed very much by both sides. Take the Soviet Union, for example. It is now facing the most difficult situation since its reform. Its ethnic and economic problems are especially serious. Its strikes shock the whole country. In 1989, its national budget deficit is estimated to be close to 100 billion rubles and its military spending is as high as 77.3 billion rubles, accounting for 15.6 percent of its GNP. In the first nine months of 1989, its national income increased only 2.4 percent, whereas money supply increased by as much as 17 percent. The situation has forced the Kremlin to concentrate more energy on internal reform and absorbing large amounts of foreign investment in an effort to revitalize the economy. The Soviet Union plans to reduce the proportion of military spending in the GNP by one-third to one-half by 1995. Because of this, it has made greater concessions than the United States in U.S.-Soviet relations to strive to make progress in arms control talks. Not only did the Soviet Union make concessions with regard to anti-missile defense and sea-launched cruise missiles, but it also stated that it will voluntarily dismantle the huge Krasnoyarsk radar station. It approved Bush's proposal on "opening up the sky" and even proposed to open up completely land, water, and space.

In the meantime, the Soviet Union has noticed that implementing its "new thinking" diplomacy has achieved significant results in reversing the situation unfavorable to the Soviet Union. Currently, forces demanding further detente with the Soviet Union are growing in the U.S. Government and among the public. Calls for the reduction in military spending are stronger and stronger in Congress. If the trend of detente continues to expand, the anti-missile defense plan of the United States, namely Reagan's "star wars" plan will eventually be aborted. Besides, West Europe currently is vigorously demanding a better East-West relationship. If conflicts and contradictions continue to develop between West Europe and the United States, it is possible that West Europe will strive to get closer to the

Soviet Union. This will give the Soviet Union great economic and political advantages. In order to take, one must first give. The seeds of concession sown by U.S. and Soviet foreign ministers in Wyoming are expected to yield rich fruits.

During the foreign ministers' meeting, the United States also made important concessions. It agreed to hold the summit meeting and changed its stance of opposing the deployment of mobile intercontinental missiles. Although the Soviet Union has already deployed two kinds of this type of missiles, the United States has not. The United States, of course, has its motive in doing so. As far as Washington is concerned, recent changes in the Soviet Union and East Europe have created a rare "historical opportunity" for the United States. How could they easily pass it up? They believe that the East European situation can be used not only to contain Soviet expansion, but also, on the basis of containment, to encourage the ideological and political systems of these countries to change to the advantage of the United States. Since the military strength of the Soviet Union is still "formidable," East European relations are complicated, the U.S. role is limited, and the situation will become unmanageable if the United States is not cautious, on the one hand, the United States must continue to pressure the Soviets to make greater concessions, and on the other hand, it must try to refrain from any rash actions and avoid turning its advantage into disadvantage. As a result, the Bush administration is carefully trying to practice, within the range tolerated by the Soviet Union, the steady progress tactic in Poland, Hungary, and other countries, and to win over the coordinated actions of West European countries.

Washington not only hopes to gain more from the Soviet Union, but also has a certain vision of the Soviet reform. U.S. Secretary of State Baker could not have put it more clearly: The United States hopes that the Soviet reform will "succeed at home and abroad" because it will make the Soviet Union "less aggressive, more restrained in using force, and less hostile toward democracy." He also said that the Soviet reform plan is completely different from the reform carried out by previous leaders "because it has gone significantly beyond the range of economic readjustment and it demands fundamental changes in the political system of the Soviet Union." However, policy makers in the U.S. Government have different views on the successes and failures of Soviet reform and their effect on the United States. According to U.S. newspapers, Secretary of State Baker, presidential National Security Adviser Scowcroft, and most officials have a relatively optimistic attitude; Vice President Quayle, Secretary of Defense Cheney, and Deputy National Security Adviser Gates hold differing views. CIA's analysis report in July holds that the Soviet reform cannot succeed easily and suggests that the United States adopt a cautious attitude toward the Gorbachev administration. In the meantime, some rightwing Republicans attacked Bush for being hypercautious and failing to take full advantage of the Soviet reform.

### Several Issues

From now on, U.S.-Soviet relations will be further expanded and deepened, which is an obvious trend. But, although the meeting points of U.S. and Soviet interests have increased, fundamentally the two sides are, after all, major rivals. The basic purposes of the "beyond containment" policy and the "new thinking" diplomacy cannot be blended together. Compromise and concession cannot cover up the nature of competition and contention. The two sides still have deep doubts about and are heavily guarded against each other. Therefore, the development of U.S.-Soviet relations will still be tortuous. Several noteworthy issues are as follows:

1. The U.S.-Soviet summit in 1990 will be a meeting that serves as a link between past and future. At the meeting, some significant agreements may be reached to accelerate the development of future relations. Soviet Foreign Minister Shevardnadze stated openly that the agreement to hold this meeting itself is proof that the two sides "have come a long way" in resolving bilateral and international problems. He also predicted that at the meeting they probably will sign the Strategic Nuclear Arms Reduction Treaty and protocol concerning the 1974 and 1976 nuclear experiment control treaties, and "give a great impetus to" the European conventional force reduction talks.

But the quality-oriented arms race is still going on between the United States and the Soviet Union, and arms talks still have many future problems. Not long ago, Bush complained that the Soviets were modernizing their nuclear weapons at an extremely fast rate. Soviet leaders announced in June that 4 billion rubles will be appropriated for "military space plans." Although the Soviets yielded on the anti-missile defense issue, Deputy Foreign Minister Karpov insisted that the Strategic Nuclear Arms Reduction Treaty still has "a direct link" to the 1972 antimissile treaty and that, if the latter is violated, the Soviets "has the right" to withdraw from the former. Therefore, the explanation of the antimissile treaty on space experimentd will still pose problems for future negotiations.

2. An international understanding is that the two superpowers have "a tacit agreement" on the East European issue. According to the report of THE NEW YORK TIMES, the Soviet Union recognized political and economic changes in Poland and Hungary and did not oppose economic aid from the West, whereas the United States told the Soviets that it had no intention of urging Poland and Hungary to withdraw from the Warsaw Pact. THE NEW YORK TIMES also said that U.S. officials revealed that Secretary of State Baker repeatedly assured Shevardnadze that the purpose of U.S. policy is to seek the "stability" of East Europe and he hopes that East European countries can realize such "stability" through a gradual transformation to a free market system and a free-election government. In his speech at the United Nations in September, the Soviet foreign minister also emphasized that the goal of Soviet policy is "the stability

of the current world," that "this principle will not change even when it affects our direct interests and the interests of this big family which we are fortunately a part of," and "that patience is the criterion of civilized political activity."

However, changes in East Europe have affected the balance of the East and West blocs in Europe and the Yalta situation, which was established after the World War II. Nobody can tell what such changes will eventually lead to. Even the United States, which is eagerly hoping that the Soviet Union and East Europe can "transform peacefully," has mixed feelings, worrying about the danger that the situation will get out of control. Kissinger even thinks that the current situation of Europe is the "calm before the storm" and urges measures to "relax tensions gradually, while maintaining the existing military structure."

3. A closer relationship between the United States and the Soviet Union will inevitably create different effects in other parts of the world. Take Japan, for instance. Some people think that, although the basic pattern of U.S.-Soviet military confrontation has not changed, if U.S.-Soviet relations continue to develop as they did during the Wyoming talks and a complete understanding is reached, the Soviet Union will no longer be a threat to the United States. At that time, the United States will "unilaterally abolish the security treaty" and withdraw U.S. troops. This will imply the "death of the Japanese-U.S. alliance." Its influence will be really unpredictable on the U.S.-Japanese relationship, which has already been affected by trade problems.

In sum, the new development in the relationship between Washington and Moscow is a result of relaxed relations between the East and the West as well as a new test facing this relaxation. Its course will not be smooth and direct. Its influence will also be complex.

### **XINHUA Discusses NATO-Warsaw 'Open Skies' Pact**

*OW2002003690 Beijing XINHUA Domestic Service in Chinese 1353 GMT 13 Feb 90*

["News analysis" by XINHUA reporter Yuan Rongsheng: "The 'Open Skies' Meeting Between NATO and the Warsaw Pact"]

[Text] Ottawa, 12 Feb (XINHUA)—The foreign ministers of 23 NATO and Warsaw Pact countries will gather in Ottawa, the capital of Canada, from 12 to 28 February to discuss opening up the skies of the member countries of the world's two largest military alliances.

Under the so-called concept of open skies, the member states of an alliance allow their counterparts from another alliance to send unarmed aircraft into their airspace on short notice to monitor their military activities and installations. Both NATO and the Warsaw Pact believe that opening up their skies is a measure aimed at enhancing mutual trust between East and West, instead

of a part of U.S.-Soviet or East-West disarmament efforts. They also believe that the action can serve as a supplementary verification measure for future disarmament agreements.

Since its proposal by U.S. President George Bush last 12 May, the concept of open skies has quickly won the support of the other NATO member countries and drawn a response from the Warsaw Pact. Soviet Foreign Minister Shevardnadze last September formally expressed support for holding an "open skies" meeting.

The Ottawa meeting is a working conference, in which three days of foreign minister-level sessions are followed by discussions among ordinary government officials. The meeting is designed to understand and resolve the various problems related to open skies. A second meeting, scheduled to be held in April in Budapest, the capital of Hungary, will seek to settle unresolved problems from the Ottawa meeting and to sign a treaty on "open skies."

In preparation for the Ottawa meeting, a Canadian unarmed military airplane stationed in West Germany on 6 January made a trial flight through Hungarian airspace with assistance from the Hungarian Government. Because of its limited ability, Hungary voluntarily gave up its right to make a trial flight through Canadian airspace.

After several rounds of consultation, the NATO member states put forward a "summary of main points" last 15 December to expound their alliance's unified stand on the Ottawa meeting. Other than a brief description by the Soviet Union of its stance, the Warsaw Pact countries have not yet developed a uniform position on the meeting, because of the drastic political changes in Eastern Europe in the second half of last year.

Currently, there are still many differences between the specific positions of the NATO and Warsaw Pact countries. The differences lie mainly in the following two areas:

1. They differ on the scope of opening. NATO has called for opening up the airspace of all member countries of the two military alliances. The Soviet Union has contended that the NATO proposal, while covering all Warsaw Pact military bases, does not include the overseas military bases of the NATO countries, particularly the United States (in such countries as Japan and the Philippines), and has called for including the military bases of both alliances throughout the world.
2. They differ on how to make surveillance flights. NATO has suggested that the two military blocs conduct flights separately, with the member states of each bloc making the flights alone or together, and has called for making the intelligence and data collected from such flights the property of each bloc. The Soviet Union has proposed that both NATO and the Warsaw Pact use the

same types of aircraft and instruments and make surveillance flights together, and has called for making the intelligence and data so gathered the joint property of both alliances.

Some Western analysts believe that the Soviet Union's joint surveillance proposal was prompted by that country's fears of failing to catch up with Western surveillance equipment and technology and consequently of finding itself in an unfavorable position in this war of intelligence. Soviet diplomats in Canada, however, have denied this, saying that joint surveillance can truly enhance mutual trust between East and West and save money, manpower, and equipment.

### East, West Differences on 'Open Skies' Issues Noted

HK2202045990 Beijing RENMIN RIBAO in Chinese  
17 Feb 90 p 4

["Roundup" by staff reporter Guo Wenfu (6753 2429 4395): "New Area in Disarmament Talks"]

[Text] Ottawa, 13 February—After two days of strenuous work, the foreign ministers of 23 countries of the two big military blocs—NATO and the Warsaw Pact—basically achieved consensus today on mutually opening their skies to let the other side's planes carry out surveillance flights. They will also hold the next round of negotiations in Budapest in May this year to solve the remaining problems to facilitate the signing of the open skies treaty.

So-called open skies means letting unarmed military planes of the other side enter a state's own airspace on short notice to monitor relevant military activities and military facilities. There has never been such a practice since the establishment of the two military blocs. In the period of mutual antagonism, to achieve the aim of spying on the other side's military targets, both sides resorted first to reconnaissance planes and then to satellites. In disarmament talks, both sides must have an accurate idea of conditions concerning the other side's military strength and military activities. Surveillance overflights can make up for what is lacking in spy satellites. Therefore, open skies will help toward an accurate assessment of the other side's strength in disarmament talks.

The "open skies" conference held recently in Ottawa is a working conference. The aim is to solve relevant knotty problems in opening up the countries' respective skies, in order to establish mutual trust and to prevent shock attacks and various mishaps.

Realizing the opening of skies and letting the other side make surveillance flights over a country's airspace calls for resolution of a series of complicated concrete problems. As far as the contents of the drafts of the agreement respectively promulgated by both sides today are concerned, the main contents of the agreement are as follows: What kinds of planes are to be used and who is

to fly these planes; the number of flights by both sides and the allocation of flight quotas; the arrangement of the scope of flights and routes; stipulations for the sensors used on planes; how to use and share acquired information and data; concrete flight arrangements; the responsibilities and obligations of both sides; and so forth.

Conditions concerning the conference in the past two days show that despite both sides expressing the intention in principle to sign an agreement as quickly as possible, some differences still exist on some problems. First, the Warsaw Pact's program calls for extending the scope of openness to the sea, or monitoring naval activities, and to space, or monitoring arms race conditions in space. This suggestion met with U.S. opposition. But if this suggestion were accepted, it would be a matter for after the opening up of the skies. Therefore, it does not interfere with the current effort to reach agreement. Second, the Soviet Union suggested extending the scope of air surveillance to U.S. bases in third countries outside NATO member countries. This idea also was turned down by the United States because there was no way to negotiate this question with third countries. In addition, the Soviet side hoped to organize a flight team for common use and to use common devices to carry out surveillance flights. The NATO side did not agree with this view. The United States suggested that the data acquired by a country's surveillance flights be shared only by member nations of the group. The Soviet Union wanted it to be shared by all the relevant signatories. There are some other disagreements.

Most of the medium-sized and small countries of the two big groups assume a relatively positive attitude toward the negotiations. This agreement can give them an opportunity to take a direct part in disarmament activities.

To prepare for this conference, Canada and Hungary had specially arranged for a test flight in Hungary's airspace on 6 January this year. A Canadian unarmed military plane passed over Czechoslovakia to carry out a surveillance flight of about three hours over Hungary, in order to supply necessary data for the conference.

The "open skies" idea was first put forward by U.S. President Eisenhower in 1955, but was rejected by the Soviet leaders at the time. Last May, U.S. President Bush again put forward this suggestion and had it approved by NATO allies as a formal proposal. Later, it very quickly received a positive response from the Soviet Union and Warsaw Pact countries. Last September both the Soviet Union and the United States decided officially to call such a conference to create a new area for promoting the process of disarmament. The convening of the conference with an agreement reached in principle will have a definite stimulating effect on future disarmament negotiations.



## SOVIET UNION

### Heilongjiang To Exchange Films With Khabarovsk Kray

SK1602051190 Harbin Heilongjiang Provincial Service  
in Mandarin 2200 GMT 12 Feb 90

[Text] The agreement on exchanging films between Heilongjiang Province and Khabarovsk Kray in the Soviet Union was signed in Harbin on 12 February. This agreement stipulates that, within one year, the Chinese and Soviet sides each select four to six feature films from the other side for showing. According to the information, the feature films exchanged by our province with Khabarovsk Kray will be original versions and are to be shown at designated theaters, with subtitles added.

## NORTHEAST ASIA

### Japanese Cited on U.S. Troop Cuts in Japan

OW2102022090 Beijing XINHUA in English  
1305 GMT 20 Feb 90

[Text] Tokyo, February 20 (XINHUA)—Japanese Defense Agency Chief Juro Matsumoto said today that any cuts in U.S. troops stationed in Japan will not damage the country's overall military strength.

According to a KYODO NEWS SERVICE report, Matsumoto admitted the possibility of U.S. troop reductions

in Japan, but said that "efficiency and streamlining" would be the aim of any force reductions proposed by U.S. Defense Secretary Dick Cheney during talks this week in Tokyo.

Cheney arrived in southern Okinawa this afternoon on a five-day visit to Japan.

Matsumoto said it is clear there is "absolutely no intention of lowering the qualitative level" of the U.S. troop strength.

Cheney is expected to announce a plan to cut 5,000, or 10 percent, of the 50,000 U.S. troops stationed in Japan.

He is also expected to put forward requests for increased military burden-sharing during his talks with Japanese officials.

The KYODO report said that Cheney, backed by U.S. congressional pressure, may request up to 4.5 billion dollars from Japan to finance the U.S. troops stationed in Japan.

Japan now pays some 2.5 billion dollars, about 40 percent of the total cost.

Matsumoto said that his agency would "listen, thoroughly think out and then make a decision of our own" on the U.S. requests for a greater Japanese contribution to the 6 billion dollars per year it costs to maintain U.S. troops in Japan.

**Vice Minister Speaks on Nationalities Work***OW1702063290 Beijing XINHUA Domestic Service  
in Chinese 1215 GMT 10 Feb 90*

[By reporter Zheng Qingdong (6774 1987 2639)]

[Text] Beijing, 10 Feb (XINHUA)— Wu Jinghua, vice minister of the State Nationalities Affairs Commission, said today that it is necessary to properly handle a few jobs in a down-to-earth manner this year to make new contributions to maintaining stability in the areas inhabited by minority nationalities, promoting a sustained, steady, and coordinated development of the economy and culture, and safeguarding the unity of the motherland and solidarity among all nationalities.

Wu Jinghua said it is necessary to continue to unfold activities of commendation for unity, solidarity, and progress among nationalities and to commend those advanced collectives and individuals who have made important contributions to promoting solidarity and progress among nationalities in the struggle against the turmoil, counterrevolutionary rebellion, and attempt to split the motherland and in the struggle to safeguard the unity of the motherland. Meanwhile, certificates of honor must be conferred on those comrades who have engaged in the work of nationalities affairs over a long period of time. He said that action will be taken to further promote the development of border trade. Most of the areas inhabited by minority nationalities are located in the landlocked frontier region. While continuing to open their doors to the east, strengthen their lateral cooperation with the hinterland of the motherland, and establish contacts with other parts of the world through the coastal areas, we still must open their doors to the south and to the northwest. It is necessary to step up construction of ports in the border areas and improve their management. We plan to study with departments concerned ways to gradually improve certain policies that badly need improvement, in light of the actual conditions of the development of border trade.

Wu Jinghua pointed out that efforts will be made this year to continue to implement the law on autonomy for the areas inhabited by minority nationalities in a bid to promote establishment of a legal system among all the nationalities of China. The State Nationalities Affairs Commission is considering working with departments concerned on formulation of some detailed rules and regulations governing implementation of the law on autonomy for the areas inhabited by minority nationalities. At present, it is working first on the document "Certain Suggestions on Implementation of the Law on Autonomy for the Areas Inhabited by Minority Nationalities." It is endeavoring to gradually formulate a whole set of administrative laws and regulations that incorporate implementation of the law on autonomy by the State Council and local governments. It is necessary to continue to do a good job in conducting work among minority nationalities that live together and are scattered over some parts of the country. The State Nationalities

Affairs Commission is drawing up "Regulations Governing Work for Nationality Townships" and "Regulations Governing Nationalities Work in the Urban Areas." Meanwhile, the work to help the poor in the areas inhabited by minority nationalities and the work for the areas of herdsmen will be stepped up this year, so as to really carry out the various policies and measures for these two tasks.

Wu Jinghua also mentioned that the State Nationalities Affairs Commission will take specific measures to improve the work of education, culture, training of cadres, and languages among minority nationalities. He called on the leaders of the State Nationalities Affairs Commission and departments in charge of nationalities work at all levels to take the lead in going to the grassroots units to conduct surveys and study, take active measures, and improve their nationalities work, so as to meet the needs of the country for nationalities work under the new situation and usher in a new epoch in nationalities work.

**Democratic Parties Discuss CPC Multiparty Document***OW1402002990 Beijing XINHUA Domestic Service in  
Chinese 0530 GMT 13 Feb 90*

[Text] Beijing, 13 Feb (XINHUA)— In the past few days central committees of various democratic parties and the All-China Federation of Industry and Commerce held forums on studying and discussing the "Opinions of the CPC Central Committee on Persisting In and Improving the System of Multiparty Cooperation and Political Consultation Under the CPC's Leadership."

At the discussion meetings, responsible persons of various democratic parties and the All-China Federation of Industry and Commerce held that the system of multiparty cooperation and political consultation under the CPC's leadership was formed and developed in the long years of revolution and construction. The integration of Marxism with the actual situation in China gave birth to this system, which is a basic political system suited to China's conditions.

Responsible persons of the central committees of the Revolutionary Committee of the Chinese Kuomintang, the China Democratic League, and the China Democratic National Construction Association shared the view that the CPC Central Committee drafted this programmatic document to uphold and perfect the basic political system. They maintained that the implementation of this document will have a major and practical significance as well as a far-reaching impact on maintaining a stable and united political situation, promoting socialist democratic political construction, bringing the political participation and supervision of democratic parties into play, mobilizing all positive factors, and on building socialism with Chinese characteristics.

Responsible persons of the China Association for Promoting Democracy, the China Zhi Gong Dang, and

other parties proposed at the forums that the study, dissemination, and implementation of this document be made the central task of all parties. All levels of democratic parties should organize their members to study the document, unify the thinking of all members in accordance with the spirit of the document, unswervingly accept the CPC's leadership, wholeheartedly cooperate with the CPC, and take the socialist road.

Responsible persons of the Jiusan Society, the Chinese Peasants and Workers Democratic Party, the Taiwan Democratic Self-Government League, and other parties proposed at the meeting to treat the study, dissemination, and implementation of the "opinions" of the CPC Central Committee and the in-depth understanding of the spiritual substance of the document as a major task. Many parties even specifically issued circulars calling on all levels of organizations and their members to understand the great significance of the document during the study session; understand that the Communist Party of China is the leading center of the socialist cause; understand the roles and functions of democratic parties; and

understand the importance of the need for the democratic parties to improve themselves.

Responsible persons of the All-China Federation of Industry and Commerce proposed at the forum that advancing suggestions and doing concrete work in the current effort to improve the economic environment, rectify the economic order, and deepen reform are the central tasks for associations of industry and commerce for the present as well as for the future. The All-China Federation of Industry and Commerce and local organizations should earnestly study and understand the spiritual substance of the "opinions," carry forward the excellent tradition of self-education, strengthen ideological and political work, and further raise awareness in upholding the four cardinal principles and opposing bourgeois liberalization. They should explore, discover, and train qualified personnel; strengthen the building of leading bodies at all levels of organizations; continuously recruit new members; do an in-depth and good job on the experiment with professional guilds; have leaders and organs of all levels change their work style; go deep into reality and raise work efficiency; and make tireless efforts to implement this document.

## NATIONAL AFFAIRS, POLICY

### Regional Economic Development Viewed

HK0712010289 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 10, 20 Oct 89 pp 71-76

[Article by Zhang Wenhe (1728 2429 0678), a doctoral student with the Planning Department, China People's University, revised in September 1989: "Strategies for Regional Economic Development in China: Changes and Options"]

[Text] New China was founded 40 years ago. In order to develop the economy, balance the disposition of productive forces and eliminate regional differences, we chose the strategy of even regional economic development. Since reform and opening up, China's policy on the regions has shifted from the simplistic approach of 'helping the poor at the expense of the rich' and 'balance for the sake of balance', to that of uneven regional development. Practice in the last decade has demonstrated that this strategy is clearly superior to the previous strategy of even development. However, some problems and even errors, have been exposed. In my view, the correct approach to regional economic development in China in the future is uneven coordinated development.

#### I. Shift From Strategy of Even Development to Uneven Development

Since the 3d Plenary Session of the 11th CPC Central Committee in 1978, and especially since the beginning of the 1980's, reform and opening up has led to fundamental changes in China's regional economic policy, regional economic priorities, and regional distribution of investment. These changes clearly signal changes in our strategies for regional economic development. They can be attributed to the following factors:

First, the lesson from 40 years' experience in the distribution of production. Conventional strategy of even development stresses even regional development, places economic disposition and investment priorities on the relatively backward central and western regions, and is anxious to shift westward in large-scale distribution of production. This has helped to some degree, to tap resources in the western and central parts of China, to provide support for economic construction in the eastern part, and to strengthen the economy of the entire nation.<sup>1</sup> Therefore, the conventional strategy must be fully affirmed. However, taken as a whole the results are not good, the interests of the east and the entire nation have been sacrificed, and the price is heavy. On the one hand, investment results in the center and west are poorer than those in the east. This is reflected in the rate of profit tax from the funds, the east:center:west ratio being 4:2:1.<sup>2</sup> Not only does this phenomenon have little impact on the economic development of the entire nation, but even the center and west themselves have not been able to end their poverty. The consequences of ignoring the objective conditions of the three regions and

economic results, and adopting the model of scattered distribution in regions including mountains and caves, have been poor economic results and other problems. On the other hand, the restructuring and strengthening of old bases and enterprises along the eastern seaboard has been affected and the development of the more developed east has been suppressed. After examining the past experience of emphasizing speed over results and emphasizing the interior over the coast, the state began to shift the priority of economic construction to raising economic results, and uniting speed and results.

Second, correction of the wrong understanding of the law of production distribution and the introduction of western regional growth theories has laid a theoretical basis for the change in regional development strategies. In the past we blindly borrowed from the Soviet production theory and viewed the law of uneven production distribution as a capitalist law, and the law of even development and distribution as a socialist law. Through discussion and practice, we gradually realized that this view was one-sided and simplistic. We also affirmed that it is an incremental historical process for regional economic development to proceed from uneven to even and disorder to order. The development of the regional economy in any nation is determined by this common law. Whether we adopt the even or uneven strategy under Chinese socialist conditions, we should aim at results and economically rational distribution. The shift from unevenness to evenness should be gradual. We should not pay the price of sacrificing partial or overall development of productive forces and employ simple methods to level off the differences. It is harmful to ignore economic results and to balance for the sake of balance in production distribution. Meanwhile, with reform and opening up, Western theories of production distribution and the regional economy have been introduced into China. Of these, the regional growth theory of American economist J.G. Williamson has had the greatest influence on the shift of our regional development strategy. This theory posits that during the early stage of national economic development, inter-regional disparity in growth will widen. In other words, there will be uneven growth. Then, with economic growth, the degree of inter-regional unevenness will stabilize. During the mature stage of development, the disparity will narrow. In other words, there will be even growth.<sup>3</sup> The evolution from unevenness to relative evenness and then evenness in regional economic growth, is a result of the mutual action and transformation of the polarization effect and diffusion effect. During the initial stage of regional growth, the polarization effect is stronger than the diffusion effect and economic disparity between regions tends to widen. This uneven development is closely related to intensive economy and economy of scale. That is, production factors are at first concentrated in a small number of places or regions which promise better results and development. During the later stage of growth, the diffusion effect becomes significant. The new regions begin to develop while the economy of the



developed regions begins to diffuse outward, and inter-regional economic disparity further narrows.<sup>4</sup> This regional growth theory is basically a theory of uneven to even growth.

Third, lessons from international experience. Many developed nations adopted the 'uneven—even' strategy of regional economic development during their course of development. The United States has experienced uneven growth between the east and west for more than a century. Only when the Great Lakes region in the northeast had been developed, did efforts gradually shift to the midwest, the west coast, the south coast, and the Mexican Gulf area. In spite of its small area, Japan has also experienced a few decades of uneven growth along the coastal hinterland. Besides, a report of the United Nations Economic Commission points out after an analysis of the development processes of a few dozens developed and backward nations, that there is more regional disparity in poor nations than in wealthy ones, and that regional disparity in the latter is narrowing while that in the former is widening. These two correlations show that degree of disparity in regional development is closely linked to level of economic development of a nation. This international experience is an important reference for us in formulating our strategies for regional development.

The new strategy for regional economic development that has been gradually formulated and implemented since the 3d Plenary Session of the 11th CPC Central Committee is a development strategy that allows uneven development and prioritizes major regions. This regional slant strategy is mainly manifested in the following three aspects:

First, investment slant. During the Sixth 5-year Plan the eastern seaboard enjoyed 50.6 percent of state investment, which was far more than the 40.6 percent it enjoyed in 1953-1980. The total amounts of investment on all social fixed assets in 1982 were 62.317 billion, 34.221 billion, and 17.978 billion yuan for the eastern, central, and western regions respectively, which accounted for 50.65 percent, 27.8 percent, and 14.6 percent respectively of the total national investment. In 1987 the total amounts of investment in the three regions changed to 197.438 billion, 89.971 billion, and 50.045 billion yuan respectively, which accounted for 56.12 percent, 25.57 percent, and 14.2 percent respectively of the total national investment.<sup>5</sup> This shows that in recent years our investment has continuously slanted toward the eastern coastal region.

Second, gradient in reform and opening up. Because of its superior geographical location, and economic and technological base, the eastern seaboard was the first to take off in economic reform and opening up to the outside world. A clear gradient in reform and opening up has been formed after gradient in practice at different levels, from the special economic zone to the open cities on the coast, the open economic zones on the coast, and then the interior. The movement is from the exterior to

the interior and from the coast to the inland. The eastern seaboard has evidently benefited more than the western and central regions. Inter-regional disparity in investment will lead to inter-regional disparity in ability to absorb foreign capital.

Third, policy slant. When the east took the lead in reform and opening up, the state introduced a preferential policy. It enjoyed preferential treatment at four levels, namely, special zones, development zones, open cities, and open areas. The east enjoys much more preferential treatment than the center and the west in aspects such as autonomy over import and export and proportion of foreign currency earnings allowed to be retained. This led to large-scale eastward movement of production factors from the center and the west, such as funds, and human and material resources. The slant in regional policy caused unequal development opportunities in the regions.

The above analysis illustrates a sharp contrast between the conventional and the current strategies for regional development. The conventional strategy stresses even development between the regions, while the current one recognizes the reality of uneven development between the regions, and suggests that some take off first and become the 'locomotive' of China's economy. The conventional strategy stresses fairness and equality between the regions, while the current one stresses economic results. In terms of regional distribution, investment distribution, and regional policy, the conventional strategy sees the interior as the priority and is overly anxious to ensure large-scale westward movement in production distribution, whereas the current one places priority on the eastern seaboard and gives it preferential treatment in investment and policy.

## II. Implementation of the Strategy of Uneven Development During the Reform: Achievement and Problems

The implementation of the new regional development strategy in the last decade has undoubtedly achieved tremendous success and has attracted worldwide attention. Nationally, the growth rates of economic indicators such as gross value of social products, national income, total value of industrial and agricultural output, total value of industrial output, and total value of agricultural output are radically higher than those prior to 1978. (The growth rates of economic indicators in 1979-1985 are 1.7-11.8 percentage points higher than those of 1954-1978.) The achievement is impressive. Regionally, the economic growth rates of the east, center, and west have also gone up to different degrees. Even nonpriority regions like the center and the west, and especially the west, have witnessed much higher economic growth rates than prior to the reform. (Only the growth rate of total value of industrial output has slightly dropped.) Reform, opening up, economic reinvigoration, and the implementation of the strategy of uneven regional development have certainly injected much vitality into our

economic and social development. It signifies an abandonment of the strategy of even distribution formed in the previous 30 years and subsequent progress.

However, a series of problems and even errors in economic development have accompanied the implementation of the new strategy.

First, inter-regional economic disparity has widened on all fronts. The 11 provinces and regions in the west make up 70 percent of the area of China. In 1985 they accounted for 28.6 percent of the total population of China and 17.2 percent of the total value of industrial and agricultural output. Their average per capita total value of industrial and agricultural output was 701.6 yuan, which was 57.9 percent of the corresponding national figure, and only 38.9 percent of the corresponding eastern figure. From 1981 to 1985 the total value of industrial and agricultural output of the 11 provinces and regions in the west had increased by 77.68 billion yuan, compared with 257.52 billion yuan of the 10 provinces and municipalities in the east. The latter is more than three times larger than the former.

Second, a major error in our reform has been a lack of coordination between regional economic slant and industrial structure slant, and gravely biased production distribution and loss of balance in the industrial structure. In the implementation of the strategy of uneven regional development we only stress the development of eastern coastal areas, our investment in terms of industry or sector is all tilted to the east, and we have neglected the development of the center and west, especially their basic industries and infrastructure such as agriculture, energy, raw materials, and transport. The slant in regional economy has not coordinated well with that in industrial structure, resulting in grave imbalance in the proportionate relationships in China's industrial structure. As the base of our national economy, agriculture is still weak. Moreover, since 1984 our agricultural production has been staggering. The trend is worrying and many have expressed concern about it. Basic industries and infrastructure such as energy, raw materials, and transport have lagged far behind. Although this has something to do with the overheated economy, it is mainly caused by insufficient emphasis and slow development.

Third, inter-regional economic friction has intensified. This can be attributed to two factors. The first factor is the serious distortion of the pricing structure. Our pricing structure has been irrational for a long time. The prices of our primary products, such as agricultural products and by-products, energy, raw materials, and mineral materials, are too low. A grave scissors differential in the prices of manufactured products and primary products has been formed. Therefore, some of the profits of the center and west, which are strong in raw materials and primary products, have flowed to the coastal areas. The center and west provide raw materials, the coastal areas process them and then sell the finished products back to the center and west. In this way the center and west suffer dual profit loss. Unequal distribution of

profits between the regions has accentuated and the gap in economic development between them has widened. The second factor is the regions compare with each other in policy and try to get as good a deal as the other. Some comrades in the center and west maintain that while it is essential for the central government to introduce a preferential policy to the eastern seaboard in order to attract foreign capital to accelerate economic development, it should also give more to the center and west. They also propose shifting from the policy of slant by region to that of slant by industry. Because the regions compare with each other in policy and want to get as good a deal as the others have, and because of the bargaining between the localities and the central government, tension and friction between regions and between the localities and the central government has intensified to a certain extent.

The emergence of the above problems has bred new worries: Can the implementation of the strategy of uneven development continue? Some comrades have proposed the 'counter-gradient theory,' the 'theory of development in leaps,' the 'theory of superior regions,' the 'theory of one and a half key points,' etc. At the same time, they have expressed doubts about the theory of gradual shift of gradient and the current strategy of uneven development. How should we adjust and perfect the distribution of our productive forces so that there is coordination between the economic slant and industrial structural slant in the regions, which helps to develop the key regions and strengthen the economy of the entire nation, while maintaining a relatively rational industrial mix and not drastically widen regional disparity? How can we make full use of regional superiority, maintain good inter-regional relations, reduce economic tension and friction on the basis of superior disposition of resources and comparative advantages? These are major questions we face in reform and opening up.

### III. Uneven Coordination: A Correct Choice of Strategy for Regional Economic Development in China

Regional economy has always been a tough and inevitable problem in organizing our economic operation. The adoption of different strategies for regional development will yield different results. The ultimate goal is even development and prosperity for all the regions. To reach this goal different development strategies can be adopted, and it depends on the state of development a region is at and the actual conditions.

Development strategies in China and abroad fall into two main theoretical models. The first is the model of even development. This means that in a nation or territory, even distribution of productive forces, especially industrial productive forces, will promote the economic development of the entire nation or territory. This model can be adopted only when the overall economic growth of a nation or territory has reached a certain stage. Otherwise, the funds and material resources will spread out too thin, investment results will be poor, and the intended socio-economic results will not

materialize. The lesson from the evolution of the spatial disposition of our productive forces since liberation proves that at present, and for a considerable period of time to come, we should not choose the even development model. In particular, we should not simplistically negate the current regional development strategy and return to the past strategy just because inter-regional economic gaps in China are widening. If we overemphasize even inter-regional economic development, concentrate on adjusting inter-regional distribution of productive forces, sacrifice investment results in the economic sense, adopt the past pattern of scattering meager investment evenly across China, and maintain even economic growth across the nation at a low level, we can narrow or control inter-regional disparity to a certain degree. However, the overall growth of our national economy in the short and intermediate run will slow down, and the standard and speed of the change in our overall industrial structure will be hampered. Therefore, it is not a wise choice.

The second model of regional development is the 'uneven—even' development model. Since the reform and opening up, China has implemented this model. We should admit that this model is basically correct and the results it yields are clearly better than those of the conventional model. The problem is, while we stress uneven development, we have neglected coordinated development between the regions and the slant of regional development is too steep. We have learned from experience that in the distribution of investment on basic construction among the three regions, the amount enjoyed by the high area should not exceed 50 percent of the amount enjoyed by the two other areas combined. During the Fifth 5-year Plan investment in basic construction was tilted toward the west. Investment in the west was equal to 61.5 percent of that on the east and center combined. Practice has proved that this slant was too steep and many negative consequences followed. During the Sixth 5-year Plan investment tilted toward the east. Investment in the east was equal to 1.03 times that in the center and west combined. In 1987, investment in the east was 1.26 times that of the center and west combined. This slant is more steep than the slant toward the west during the Third 5-year Plan. The slant is obviously too steep and it is toward the east both in industries and trades.<sup>6</sup> The result is that on the one hand, inter-regional economic disparity has drastically widened and regional economic development has become more uneven; on the other hand, the center and west, which excel in resources for the development of basic industries, have developed their basic industries in a narrow scope and at a low speed. Consequently, basic industries such as energy and raw materials are gravely inadequate and backward. This has become a bottleneck in the development of our national economy. Therefore, it is imperative for us to adjust and perfect the current strategy for regional economic development and smoothen the relationships between regions and between industries.

I believe uneven coordination is the right choice of strategy for our future regional economic development. This is supported by the following reasons: First, according to the theory of uneven system economics, socioeconomic development is based on the law of uneven development. There should be priorities, differences, and characteristics in development. Development model and efforts should not be the same for all. In the camp of uneven development there is always a dominant variate which represents the behavior of the overall entity. Therefore, at different periods we should choose the key regions and key sectors of the period to develop the economy. In this way we get twice the result with half the effort.<sup>7</sup> Second, taken as a whole, regional economic growth in China is still at the initial stage and the polarization effect is stronger than the diffusion effect. We should choose the strategy of uneven regional development. It fits the reality of uneven regional economy in China and can meet our need to accelerate the pace of our national economic development and raise the overall economic efficiency. Third, there are far greater inter-regional differences in natural conditions, natural resources, geographical location, economic and technological foundation, and sociohistorical background in China than most nations with uneven regional development. Because of this unique situation, the uneven regional economy must be coordinated. Development of the east must be well coordinated with that of the interior and remote region of the national minorities. We should promote the economic growth of the center and west with the key construction and preferential economic growth of the east, and support the key construction and preferential economic growth of the eastern seaboard by tapping resources from the center and west, so that there will be orderly, continuous, and coordinated economic growth in the east, center, and west. We should, on the basis of improving the pricing structure and narrowing inter-regional policy differences, adjust and improve the industrial structure, coordinate inter-regional relations, reduce inter-regional tension and friction, and make good use of the superiority of the eastern, central, and western regions. The strategy of uneven coordinated development differs from both the current and the conventional development strategies. Its main characteristics are as follows:

1. It is a strategy of uneven development or key development points with a suitable degree of slant. This means that only by following the law of uneven regional economic development and allowing the widening of regional disparity in the short run with key and uneven development of each period, can we guarantee relatively fast development of the national economy in the long run, effectively and thoroughly narrow inter-regional economic disparity step by step, and ultimately realize the ideal of even regional economic development in a shorter time than expected. A suitable degree of slant means investment and economic distribution should generally slant toward the eastern seaboard, but to the right degree. If it goes too far, a whole series of economic, social, and even ethnic problems will emerge and there

will be unequal competition between the regions. Slant of regional economy must be combined with slant of industrial structure and the development of the center and west. To some comrades, slant of regional economy and that of industrial structure contradict each other, for slant of regional economy favors the eastern coastal areas, whereas slant of industrial structure places the priority on support for and development of basic industries and infrastructure such as agriculture, energy, raw materials, and transport, which are mostly located in the center and west. These comrades believe that slant of regional economy cannot be coordinated with that of industrial structure. This view makes sense, but falls short of being one-sided and rigid. In fact, slant of regional economy refers to slant toward the east in general, but does not mean that all industries and sectors must slant toward it. The two are different concepts. Although the center and west do not have key locations, it does not mean that all their industries and sectors are nonpriorities and need no slant. The key here is to maintain the right degree of slant in the whole setup. While giving priority to developing the east, we must not neglect the center and west, especially the development of their basic industries and infrastructure such as agriculture, energy, raw materials, and transport. This affects not only the development of the center and west, but also that of the whole nation and the healthy development of the east.<sup>8</sup> To correctly handle the relationship between the priority and the ordinary and between the coast and the interior, we should not, as we did in the past, try to mechanically balance the distribution of the productive forces across the whole nation, artificially suppress the rate of development of the coastal areas, and slow down the economic construction of the whole nation. Nor should we proceed mechanically and build the next piece only after completing one piece. Rather, we should make use of the characteristics of each region, retain the positive ones and eradicate the negative ones, and bring into play the excellence of each region, so as to attain the maximum socioeconomic results.

2. The strategy of uneven coordinated regional development is an open strategy. In our regional economic setup, the eastern seaboard should make full use of the favorable opportunity arising from the adjustment of the world industrial structure and its own superiority in economic, technological, and labor power resources so as to be a part of international division of labor. It should actively develop export-oriented economy, participate in international competition and exchange, stop the excessive expansion of manufacturing industries at the same level, introduce technological reform to conventional industries, actively develop new industries, raise the quality of the industrial structure, and concede part of the domestic market in energy, raw materials, and traditional products to the center and west. The center and west should, after considering the comparative costs and advantages on the basis of their own resources, improve their own industrial structure, quickly fill the gap in domestic market in this aspect, and help their economy

to grow. Based on the goal of their industrial structure adjustment, the east can diffuse to the center and west and move some of its industries westward, so as to contribute to the accumulation of assets in the center and west.<sup>9</sup> The coastal areas should further open up to the outside. This can accelerate its economic development as well as the advance of technology, information, and management experience to the center and west, and reduce the relative intellectual backwardness of the center and west, especially the west, which is due to geographical remoteness.

After many years of construction, a base has been formed in the center and the west which is capable of realizing economic growth. The imperative task now is for these two regions to acquire new ideas, break out of self-closure, be more willing to open up, open up on all fronts, bring into play its strength in resources, adopt preferential policies, improve the investment environment, attract domestic and foreign capital, technology, and human resources, especially those from the coastal areas, speed up the process of tapping resources; and implement the development strategy of combining the tapping with manufacturing of resources, so that full use can be made of their superiority in resources, and they can continuously strengthen their economy and their ability of self-development and self-accumulation.

3. This strategy stresses inter-regional coordination and mutual complement. The spatial distribution of our natural, economic, and human resources is highly uneven. The eastern coastal areas are economically developed, technologically advanced, and richer in capital and human resources, but short of natural resources. The center and west have a vast land area with very rich natural resources, but economically backward and short of capital and especially of human resources. Because of the coexistence of both positive and negative factors, the regions need to depend on and complement each other, set up economic and technological cooperation and promote the circular flow of the domestic economy. While participating in the great international circle, there should be a new regional setup in our domestic economy whereby east supports west, west backs up east with natural resources, each complements the other with its strength, and each supplies what the other needs. In this way, the regions can support each other in coordinated development. They can, on the basis of choosing from comparative advantages and improving the industrial structure, create true economic vitality.

In short, what suits the reality of China at present is neither the conventional strategy of even development nor the strategy of simple uneven development, but rather a strategy of uneven coordinated development that incorporates both fairness and equality. Implementing this strategy can lead to a rational industrial structure and coordinated inter-regional relations without slowing down the growth rate of the national economy in the short and intermediate run or drastically widening inter-regional disparity.



We must admit that whatever strategy we adopt, for a long time to come it will be very difficult to fundamentally resolve the problem of uneven regional development in China. As a legacy from history and an inevitable product of the initial stage of regional growth, the wide gaps in regional economy cannot be eliminated in the near future. Compared with other nations, we may have to take a longer road in our effort to resolve the problem of uneven regional economy. In a certain sense, the key problem our regional economy will face for a period to come is to handle coordinated regional development under uneven conditions.

#### Footnotes

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#### Perfecting the Contract System

90OH0225A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 11, Nov 89 pp 35-38

[Article by Yang Zhengkui (2799 2973 7608): "Perfecting the Contract System is Presently the Prime Way to Revitalize Our Large Enterprises"]

[Text]

#### I

Where is the contract system heading for? This is the important question we are presently confronted with in our reform.

*1. There is a great difference whether to contract or not to contract; large enterprises should not be contracted on the*

*basis of the "second-step replacement of profits by taxation." [di er bu li gai shui 4574 0059 2975 0448 2395 4451]*

During its 30 years of existence, from 1959 to 1989, the Baotou Iron and Steel Company [Baogang] has incurred losses for 17 years, and it was only in 1978 that its loss-operations ended. However, its economic efficiency still remains very low, and it lacks sufficient strength to finance its further development. With care and support from the Ministry of Metallurgical Industry and the Government of the Nei Monggol Autonomous Region, Baogang instituted in 1980 a system of "fixed quota profit contracting," which in 1983 was again changed to "progressive quota profit contracting" (a progressive increase of seven percent per year). This initiated a period of a most inspired work attitude among its staff and workers, of the most rapid progress in production, and of the highest economic efficiency. Gross value of industrial output during the period from 1983 to 1988 increased at an average annual progressive rate of 12.8 percent, and profit-taxes increased at an average annual progressive rate of 27.7 percent. It achieved a record in 1985, with 176 million yuan in profits, 262 million yuan in profit-tax, and turned over 127 million yuan of profit-tax to the government, while the enterprise itself retained 126 million yuan of post-tax profits. However, the good situation did not last, and after the "second step replacement of profits by taxation" was promoted in 1986, Baogang again got into difficulties: Compared with 1985, steel production in 1986 increased by 169,000 tons, production of steel products rose 52,000 tons, output value increased by 130 million yuan, profit-tax turned over to the government increased by 77 million yuan, but profits of the enterprise and post-tax profits retained by the enterprise declined by 143 million yuan and 56 million yuan, respectively, amounting to declines of 18.75 and 55.5 percent, respectively, compared to 1985. In order to avoid any reduction in wage incomes and welfare benefits for Baogang staff and workers, and to preserve their work enthusiasm, the government of the autonomous region decided to return 24 million yuan out of the profits that Baogang had turned over to the government, in order to replenish Baogang's bonus and welfare funds, which was the only way for Baogang to overcome its difficulties.

When analyzing the initial practical experiences with the "second step replacement of profits by taxation," people recognized that "contracting" was still the best way to go. As enterprises all over the country, one after the other, reinstated contract systems, the Nei Monggol government, in October of 1987, also approved that Baogang institute the system of "two guarantees and one link" (guarantee to turn over to the government 20 million yuan of profits, guarantee that by the end of the Seventh 5-Year Plan output of steel would be double the 2.5 million-ton mark, and link gross payroll in a flexible way to profit-tax paid to the government). However, since this contracting was done on the basis of the "second-step replacement of profits by taxation,"

income tax and regulatory business tax had to be paid according to regulations, and any shortfall in whatever had to be paid to the government would be wholly an investment of the autonomous region in Baogang. In line with these arrangements, Baogang has to supply, from 1988 on, the autonomous region with 10 percent of extra-plan semifinished steel production at parity prices, while it is additionally faced with the increased cost factor due to daily rising outside prices and profits, which in turn continuously reduce the retained profits of the enterprise. In 1987 and 1988, when efficiency-wages entered into the costs, profit and tax turned over by Baogang to the government still increased 58.8 percent and 103.3 percent, respectively. However, not only would this not allow corresponding increases in enterprise accumulations and in welfare expenditure for staff and workers, there was even a reduction, compared to 1985, in funds available from retained profits of the enterprise for use in production development and scientific research, namely by 72 percent and 63.8 percent, respectively. The collective and welfare funds of staff and workers were also cut back by 60 percent and 47.3 percent, respectively. It went so far that even such indispensable funds, such as for staff and workers health services, could not be safeguarded. These conditions make it quite clear that the contract system is the more realistic and feasible way to revitalize the enterprises, and that there is a great difference in whether to contract or not to contract. However, the practical experiences from two times of contracting lead us to only one conclusion, namely that it is not possible to effect contracting on the basis of the "second step replacement of profits by taxation." This is so because the special characteristics of this type of contracting is: All risks of reduced profits are to be borne by the enterprise, about 75 percent of profits after repayment of bank loan are taken away by the government, and the part which remains for the enterprise to freely dispose of is only one-fourth of the profits after repayment of bank loans. Obviously, the enterprise will not be able to depend merely on its own accumulations to maintain itself and finance developments.

*2. Rising economic efficiency at Baogang is the result of the contract system spurring on the enterprise to gradually perfect its business mechanism, and it is not a matter of "pricing benefits."*

The largest risk faced in contracting management of the enterprise is the continuous occurrence of various unpredictable outside factors that reduce profits. These not only endanger the smooth implementation of the contract system, but are taken as a pretext by some people to negate the whole contracting system. It is true that in the last few years, prices for products manufactured by the enterprises have generally gone up, but one cannot conclude from this that returns have gone up because prices have gone up. This requires a specific analysis. Let us take Baogang as example. According to incomplete statistics, Baogang had to spend an additional 608.08 million yuan due to outside price increases during the 3

years preceding the Seventh 5-Year Plan, while internal price adjustments for plan products brought only 157.36 million yuan of total increased income. This means that the enterprise had to rely on the "double increases and double economies" [increasing production and practicing economizing, increasing income and reducing expenses] to cover three-quarters of all external increases and to absorb these expenses; there is no "pricing benefit" involved here. On the contrary, after instituting the contract system, output value and output quantity greatly increased year after year, consumption continuously declined, and the profit-tax turned over to the state kept going up. However, due to the price increases outside, the situation became one of "increased production, increased outward transfers, increased losses" for products manufactured within the plan provisions for the enterprise (in 1989 losses from plan shipments of products will amount to over 100 million yuan), which made fulfillment of the profit target of the enterprise for the period of the Seventh 5-Year Plan impossible. Baogang had planned to achieve a profit of 1.082 billion yuan during the period of the Seventh 5-Year Plan. Actually, the results have been: 394.95 million yuan during the 1986-1988 period, a forecast of 130 million yuan for this year, and 170 million yuan planned for 1990, a total of 695 million yuan, i.e. 387 million yuan, or 35.77 percent, less than originally planned. Because of the decline of profits, not only is the target of doubling the 2.5 million tons annual steel production by the end of the Seventh 5-Year Plan period seriously threatened, but improvement of staff and worker living standards and welfare benefits, planned for the Seventh 5-Year Plan, will also fall through.

*3. The contract system spurred enterprises on to become "long-range oriented" in their business conduct. It also promoted the development of the system of ownership by the whole people, and improved the capability of enterprises to effect accumulations for the purpose of "expanded reproduction."*

The contract system brings increased clarity to the problem of self-accumulation by enterprises. In respect of the sphere of their responsibilities, it provides the enterprises with authority to decide themselves on arrangements for "expanded reproduction," and under the new policy of "providing funds on loan, rather than as allocations," it also enhances their enthusiasm for "responsible management."

During the Sixth 5-Year Plan, Baogang decided on its own initiative on a series of plans for complementary reforms and for the increase of small-sized steel products. It made great efforts to improve economic efficiency and also its capability for accumulations. In five years, Baogang invested 380 million yuan of capital funds. This not only quickly increased the value of assets owned by the whole people, but additionally increased production of items which had been in short supply, such as wire stock, ribbon steel, soldered pipes, and rolled billets.

At the beginning of the Seventh 5-Year Plan, Baogang, furthermore, in good time drew up a "development plan for the intermediary period," and decided on such methods as utilizing foreign capital, taking out various bank loans, and contracting for the raising of capital funds to be able to "operate with borrowed funds." It prepared for over 3.1 billion yuan of investment capital, with the intention of achieving a production capacity of 3 million tons of steel during the time of the Eighth 5-Year Plan, which would yield over 800 million yuan profit-tax, also planning to add other items in short supply throughout the nation, such as steel bars, cold-rolled steel strips, new rare-earth products, light gauge sheets, and so on.

During the first three years of the Seventh 5-Year Plan, the state and local authorities had actually provided loans amounting to only 260 million yuan, which still left a very large gap of needed capital, but Baogang devised various means to overcome the difficulty, and by 1988 had achieved investments of 637 million yuan. Comparing 1988 with 1985, annual steel output had increased by 500,000 tons, annual output of iron by 700,000 tons, annual output of steel products by 440,000 tons, and an additional 85 million yuan were turned over to the local finance administration. Actions that incur such huge economic risks and that are of such gigantic and complex organizational dimensions are, obviously, not indicative of decisions of "short-range oriented" conduct. It is easy to see, therefore, that those views that condemn the contract system as prone to "short-range oriented conduct," mistakenly mix up the different special characteristics of large-scale enterprises and small-scale enterprises, and also do not understand well the cadres and the masses involved in large-scale enterprises. In actual fact, the contract system is built on the foundation of a mentality that possesses a high sense of responsibility. Any large-scale enterprise that cannot realize a benign cycle of input and output cannot very well maintain simple reproduction, not to speak of realizing reproduction on a large scale. Enterprises of this nature would then also be incapable of accomplishing the various economic indices prescribed for the contract period, and any real "optimization of profits" would then also merely be a kind of phantasm.

#### *4. Linking gross payroll to economic returns will not inflate consumption funds.*

Some comrades believe that after instituting contract management in an enterprise, due to pegging gross payroll to economic returns, this arrangement will easily lead to inflation of consumption funds. In my opinion this view is not at all tenable.

According to relevant statistical data, during the 1979-1988 period, gross payroll in China had increased at an annual average of 15 percent. Computed at comparable prices, the increase rate was 1.4 percentage points lower than the growth rate of national income. During the 1984-1988 sector of the said period, gross payroll increased at an average annual rate of 19.7 percent.

Computed at comparable prices, this was 2.5 percentage points lower than the growth rate of national income during that period. These data fully demonstrate that in the last 10 years, increases in China's gross payroll had been of limited proportions, and that these had never exceeded the growth rate of China's national income.

Looking at the increase rates of wages and productivity, we see that in the last 10 years, real wages in China increased at a rate that was lower than the rate at which productivity increased. During the 1979-1988 period, real wages in enterprises owned by the whole people increased at an average annual rate of 4.3 percent. During the 1984-1988 sector of the said period, this rate was 5.8 percent. However, during the same 1979-1988 period, overall productivity in industrial enterprises owned by the whole people increased at the average annual rate of 5.2 percent, and at the rate of 7.2 percent during the 1984-1988 sector of the said period; productivity thus increased at a rate that was higher than the increase rate of real wages by 0.9 and 1.4 percentage points, respectively.

Moreover, the flexible linkage of the gross payroll not only provides a basis for the eventual increases in workers wages, but is also an important means of controlling the rate of the gross payroll increase, preventing it from ever exceeding the state's resources. This is so because after total wages are flexibly linked to taxes and profits, the prerequisite for enterprises is that there will be a comparatively larger increase in national income. Taking Baogang as example, during the 1987-1988 period, the gross payroll increased progressively by 10.07 percent, while during the same period profit-tax achieved a progressive increase of 12.1 percent, and profit-tax turned over to the government increased at the progressive rate of 14.69 percent. This makes it sufficiently clear that this kind of flexible linkage will certainly not lead to uncontrolled wage increases and to an inflation of consumption funds. It is precisely the limitation on wage increases that guarantees national income will always increase at a faster rate.

It follows that the positive effect of the flexibility in linking the gross payroll with profit-tax turned over to the government is highly important; this method should certainly have our approval. As to the various problems that have arisen in implementing this policy, they can be gradually and completely resolved in the course of actual practice.

In sum, the contract system opens prospects of reform, of opening up, and of revitalization for all our large-scale steel enterprises. Even though the system may not be a panacea that cures all diseases, and even though it still requires perfecting in many directions during actual practice, and although many theoretical and policy questions are in need of further thorough discussion, its historical position and effect cannot be denied.

## II

**The impact of "tax and profits to flow in different channels" and the "post-tax repayment of bank loans."**

We believe that the proposition of having "tax and profits flow in different channels" had been intended to cope with the "problems" of contracting for enterprise profits and the "pre-tax repayment of bank loans." But whether these so-called "problems" really exist is still a matter that needs further thorough discussion.

*1. About the idea that "profit contracting violates the principle of equality in taxation, and that this will have the state get less and the enterprises retain more."*

We believe that comrades who hold this view see only the superficial phenomena and do not look at the essentials. First, looking at the actual receipts we see that enterprises that practice profit contracting are also thereby guaranteeing the state's tax and profit revenue, regardless of the shape of the national economy. But if the enterprise wants to increase its income, it must make efforts to overcome or absorb various external difficulties and various inflationary factors. If there would be no contracting, would an enterprise on its own initiative take on risks and expose itself to pressures, trying by every means to increase production and increase its income? And since this system will create increased income, how could it be that "the state will get less?" Second, the entire amount of profits that the enterprise will retain will, to the largest part, according to government regulations, have to be used on production development. Besides, any addition by the enterprise to its fixed assets belongs to the state, which is another form of turning over additional profit to the state. Third, after instituting the contract system, the state will not have to make further investments in the enterprise, and whatever investments will be needed by the enterprise for its development must be raised by the enterprise itself. At the same time as the enterprise takes on the huge risk of developing production, it will also provide new tax revenue for the state. All this shows that the view of a so-called "contracting will have the state get less" is not in conformity with actual reality.

*2. About the idea that "pre-tax repayment of bank loans means that the state repays loans on behalf of the enterprises."*

We must point out here that comrades who hold this view do not understand at all the strong sense of responsibility of enterprises to make contributions to the state. Property of enterprises owned by the whole people belongs to the state. In recent years, steel enterprises have not shied away from borrowing at high interest rates to carry out technological transformations and expanding production capacity, actions primarily motivated by a sense of responsibility toward the state. As everybody knows, steel enterprises are the basic industry of the national economy, and as the domestic shortage of steel products will hardly change in a short time, the steel industry requires that the state adopt a slanted policy to

accelerate this industry's development. However, starting out from the national conditions of China, the development of steel enterprises must be built on the transformation of presently available old enterprises by having them tap whatever potential there is. The enterprises are responsible to accomplish renovation and development plans approved by the state. This is a debt which the enterprises owe the state, and does not constitute any repayment of a debt by the state on behalf of the enterprises. Furthermore, there are also conditions attached to the "pre-tax repayment of bank," and this does not mean that all debts owed by the enterprise can be repaid before tax. The so-called "the state pays the debts of the enterprise" is obviously a completely perverted view.

*3. About the idea that "pre-tax repayment of bank loans by enterprises owned by the whole people renders taxation unfair and is detrimental to fair competition."*

This is an extremely lopsided view, because there is a great difference between the responsibilities toward the state and obligations to be fulfilled by enterprises owned by the whole people and those of all other enterprises. First, enterprises owned by the whole people must organize production and conduct business according to state plan, leaving them little decision-making authority in matters of production, which is quite different in the case of other enterprises. Second, products manufactured by enterprises owned by the whole people are mainly distributed by the state, with little that is distributed by the enterprises themselves. Third, enterprises owned by the whole people, especially large-scale steel enterprises, have their prices fixed by the state. Under the system of "double track pricing," enterprises owned by the whole people must fulfill the contract obligations of the state, which means bearing very large economic losses, while this problem does not exist in the case of other enterprises. It is for these reasons that superficially calling it "unfair" disguises an actual inequality between enterprises owned by the whole people and enterprises of other ownership systems.

We have to admit that the post-tax repayment of bank loans could have the effect of restricting enterprise operations with borrowed funds. This has a positive effect as far as trades and departments are concerned that require stricter control of their developments. However, we believe that this type of a policy is unsuited to metallurgical enterprises, because:

1) Development of steel industry requires large investments and will only slowly yield returns, so that recovery of capital investments will take a long time. Furthermore, expansion of production capacity will depend on enterprises raising themselves all necessary funds. In recent years, enterprises had to cope with various external price inflation factors. If we would additionally change pre-tax repayment of bank loans into post-tax repayments, it would deprive the enterprises of their



capability to accumulate, and would impair their enthusiasm for operating with borrowed funds. This would run counter to the policy of accelerating the development of the steel industry.

2) Pre-tax repayments of bank loans and post-tax repayments of bank loans differ only in respect of immediate benefits and long-term benefits. Post-tax repayment of bank loans will only guarantee the state's immediate financial revenue. Pre-tax repayment of bank loans will allow the enterprises to gain a certain capability to accumulate. It is a good method where the state will decide policy, the enterprises will bear the risks, and where the government will increase its tax revenue, a method somewhat like "feeding the chicken that lays the eggs." We believe that pre-tax repayment of bank loans should be one of the slated policies for the development of key industries. Otherwise, not only will public finance have no new sources of revenue, but since the enterprises will lack backing for their development, they may ultimately fall into the old rut of "the second step replacement of profits by taxation." The system of having "profit and tax flow in different channels" is still beset with several other problems that deserve further discussion. The above has only dealt with the detrimental effects that the two mentioned views could have on the steel industry. It is hoped that the relevant departments of the government, at the time when they will comprehensively implement the policy of "profit and taxes to flow in different channels," will carefully consider the specific conditions in each trade or industry; under no condition must there be "cutting everything with one and the same knife."

### Price Increase of External Sales Examined

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[Article by Cheng Dexiang [4453 1795 4382] of the Xiangshui County Price Bureau of Jiangsu Province: "The Cause, Effect, and Countermeasure of 'Price Rise of External Sales'"]

[Text] The price rise of external sales mainly refers to the fact that once a commodity is sold from the production area (local area) to the marketing area (external area), its price is higher than the local price, thus directly affecting the price increase of commodities (or products) in the marketing area. This new practice of illegal price increase emerged in circulation in recent years. Therefore, it is necessary to study the cause of such a phenomenon, its effect on society as a whole, and the countermeasures we should adopt to guarantee the smooth progress of the price reform and the sound development of the national economy.

#### 1. The Cause of the "Price Rise of External Sales"

A. The flawed price control system is a "hotbed" for the price rise of external sales.

One of the expressions of the flawed price management system is that the price of the same kind of commodity is

subject to different kinds of management methods. Some localities treat it as fixed state price, some localities treat it as guidance-style state price, some treat it as decontrolled price, and some treat it as both controlled and decontrolled prices. Since the management policy on the same kind of commodity varies in different localities, it is very easy for enterprises to seize the loophole of the flawed management system, especially when certain commodities are in short supply, and cause commodities to flow from the area where prices are controlled to the area where prices are not controlled. Hence, the rise of commodity prices in external sales. In addition, some localities use both controlled and decontrolled methods to manage the price of the same commodity. In other words, they control the price in the local market but do not control the price if the commodity is sold to other localities, thus forming two prices, one local and one external. In order to earn more money, production and management enterprises fix their eyes on external markets and raise prices "legally" to profit from external markets and disrupt the normal order of commodity circulation, thus creating conditions for the price rise of external sales.

B. The current pricing method has provided opportunity for the price rise of external sales.

Under the current pricing method, except for a few commodities which still adopt the deduction method, most commodities adopt the addition method. The basic formula of the addition method is: Local sales price = purchasing price + reasonable direct transportation and other miscellaneous expenses + comprehensive price disparity rate. This formula ought to produce a unified set price for the same commodity in the same area. But during actual enforcement, different localities have different interpretations and criteria, causing the strange phenomenon that the same commodity is sold at different prices in the same market. For instance, the purchasing price in the formula should be the factory price of the production area (or the wholesale price of the production area) or the transfer price of the area where commodities are flowing in a rational direction. But during actual enforcement, some enterprises disregard the level of purchasing price and the rationality of price and flow direction. As long as there is a need in the local market, they will organize the purchase. They even buy from retail units at retail prices, thus jacking up the purchasing price. For another instance, the reasonable direct transportation and miscellaneous expenses should be for commodities in which the flow direction is rational and conform to regulations, including transportation expenses, loading and unloading labor cost, and expected storage fees. But what is it like in actual enforcement? Some enterprises disregard the rationality of commodity's flow direction and transportation mode and include even operational, information, reception, and travel expenses and processing fees which exceed the allowed expenses by several or more than 10 fold, thus increasing the cost of commodity and directly affecting the rise of price level. Now let us take a look at the

situation of comprehensive price disparity. Even if the specified comprehensive price disparity rate remains unchanged, due to a high purchasing price and inflated expenses, the amount of comprehensive price disparity still will be several fold higher than the specified amount, causing an abnormal phenomenon in which the higher the purchasing price and expenses, the greater the comprehensive price disparity and profits. As a final result, sales prices will increase and the immediate interests of consumers will be violated.

C. Enterprises cannot withstand the price increases of raw and supplemental materials, leading to the price rise of external sales.

In recent years, since the prices of many raw and supplementary materials increased, many enterprises had little endurance and could not withstand such increase, thus directly affecting the rise of the cost of their products which in turn affect the rise of the price of their products. Under this situation, since the state did not readjust commodity prices in a timely manner, some enterprises tried every possible way to adopt the "flexible" method so they could do something about the price of commodities. For instance, while product prices remain the same, some enterprises use the method of collecting the price difference of raw material to increase prices in a disguised manner. Some let the price of internal sales (local sales) remain the same to make a little profit or operate at loss, but they increase the price of external sales (sales to other areas) to gain illegal profits, rake money from external sales, make up internal sales with external sales, shift the price increase of raw materials and loss directly onto other areas, thus facilitating the development of the price rise of external sales and disrupting the normal order of commodity circulation.

D. The "separate management" of the financial system has provided convenient conditions for the price rise of external sales.

China's current financial system is under "separate management," implementing the local financial contract system which has intensified the desire of local governments at all levels to seek the gains of local areas. Some local governments rob other areas of their profits to increase local financial income. As far as local governments are concerned, only when enterprises make more profits can they increase revenue income. As far as enterprises are concerned, everybody wants to make more profits. Therefore, enterprises and governments have the unified demand of seeking interests for their own enterprises and local areas. To ensure that they fulfill the goal of price control in their own localities, local governments must control the prices of concerned commodities (products) within their area. Since prices are controlled by local governments in local areas, enterprises shift the focus of profitmaking to external markets and sell locally produced and managed commodities (products) to external markets at higher prices. In order to reduce financial subsidy, local governments also

encourage money-losing enterprises to switch their attention to external markets and shift the burden of loss to other areas so as to make up internal sales with external sales and "turn deficits into profits." If all localities use this same method and strategy to deal with each other, their price indexes may not rise very much on the surface but the society as a whole will actually suffer from a much higher price increase due to the price rise of external sales.

E. The divided control of price level is conducive to the price rise of external sales.

In 1988, the national price increase index was 18.5 percent, which is the average of the total price increase indexes of all provinces and municipalities. However, when calculating the price increase index, many localities only considered the increase indexes of controlled commodity prices in their areas, and the overwhelming majority of them did not include the indexes of commodity price increases resulting from the price rise of external sales. In order to fulfill the goal of price level control, some localities adopted the "flexible method" under which the price of the same product is controlled for a small part but decontrolled for the most part. As for the prices of local products, they are controlled if sold on the local market but decontrolled if sold to other areas. However, when studying the goal of price level control, they failed to consider the factor of the effect the external price increase had on the local market, facilitating the spread of the price rise of external sales to the whole country.

## 2. The Bad Influence of the "Price Rise of External Sales"

A. The price rise of external sales promotes the price rise of whole society.

The practice of the price rise of external sales has spread to the whole country. For the sake of their own economic interests, enterprises turn their eyes toward the outside. In order to increase revenue income and reduce expenditures, local governments also turn their eyes toward the outside. Place A does so, and so does place B. You profit from me, and I profit from you. Guided by this thinking, everybody raises the prices of locally produced (or managed) commodities (or products) when dealing with others, and nobody wants to "come to grief." As a result, the prices of whole society has increased, affecting the normal development of economic construction as a whole.

B. The price rise of external sales affects the actual fulfillment of the goal of price control.

"The price rise of external sales" makes price index inaccurate. All localities think that the influence of price increase in other areas is their problem and out of their control, so they cannot calculate it into the goal of local price control. At the same time, they also admit that they do not want to control the concrete price of local commodity (or product) sold to other areas, calling it

"decontrol and revitalization." As a result, the wind of price rise of external sales blows stronger and stronger, directly affecting the actual fulfillment of the goal of price control.

C. The price rise of external sales affects the smooth progress of the price reform.

The main task of the price reform is to reform the ossified price control model, smooth out price relations, and readjust price structure to rationalize the entire price management and the price systems and to accelerate the overall development of the national economy. However, the spreading of the price rise of external sales in the whole country has adversely affected economic construction and the people's daily life, offset part of the achievements of the price reform, discredited the price reform, creating misunderstandings which led people to blame the price rise on the reform, thus undermining the progress of the price reform.

D. The price rise of external sales causes certain production enterprises to develop blindly.

As the price rise of external sales prevails, many localities and enterprises see that certain products of other areas have high prices and make good profits in their local markets and conclude that they have great development future. So they vigorously organize forces to blindly develop such products, disregarding their technological conditions and production capacity. Household refrigerators are an example. A few years ago, many localities decontrolled the sales price of refrigerators, and their prices continued to rise in the market. Some enterprises blindly started refrigerator production and assembled many off-brand household refrigerators which had poor quality, high production cost, but no market. Due to the decline of refrigerator prices in competition, plus the shortage of funds, some manufacturers that had blindly started the production were forced to suspend production, switch to another line of production, or close down, resulting in enormous waste to the material and financial resources of society.

E. The price rise of external sales affects the normal circulation of commodities.

Commodities should be organized according to the direction of rational flow. But due to the influence of price rise of external sales, when organizing commodities, commercial departments in all localities disregard the direction of rational flow of commodities and calculate in commodity prices all expenses incurred by irrational transportation. As a result, commodity price increases as the number of channel and transfer increases, creating a chaotic state for the field of circulation.

F. The direct victim of the price rise of external sales is consumer.

Today, as the wind of price rise of external sales continues to spread, commodities flow from this place to

that place or from that place to this place. After flowing back and forth like this, commodities will finally end up in consumers' hands. What consumers get will be commodities whose quality does not measure up to their prices, thus giving consumers burden which they do not deserve and making it difficult for them to complain.

### 3. Countermeasures To Solve the Problem of "The Price Rise of External Sales"

A. Proceeding from the interests of the whole, working together, and exercising overall control to stop the price rise of external sales.

To strictly control the rise of price level, guarantee the smooth progress of the price reform, safeguard the interests of the broad masses of consumers, and reduce the waste of state material and financial resources, we must emphasize the national situation as a whole, urge the leadership and the masses to work together with one heart, and exercise overall control to effectively stop the price rise of external sales. All localities must unify their understanding, emphasize the situation as whole, and at least promise that they will keep the prices of locally produced and managed commodities (products) from rising and will not practice price discrimination while ensuring the price control of external commodities (products) entering local markets and strictly forbidding high-priced commodities to enter local markets. All localities should perfect various relevant measures according to unified requirements.

B. Unifying the requirements of price control and eliminating the difference in policy—these are the keys to the solution of the price rise of external sales.

The prices of commodities vital to the national economy and the people's livelihood and the prices and fees concerning the people's daily necessities should be managed in a unified manner on a nationwide scale. Commodity prices that should be controlled must be controlled well and thoroughly. Internal and external prices should be treated the same. Regional blockades and price discrimination should not be practiced. Different policies should be strictly forbidden.

C. Readjusting in a timely manner the prices of certain commodities (products) vital to the development of production—an important condition to halting price rises of external sales.

Due to the price increase of raw and supplementary materials, the production cost of enterprises continues to rise, and enterprises make very little profit or lose money in producing certain short-supplied commodities, resulting in the phenomenon in which the more enterprises produce the more money they will lose. Under this situation, we should readjust the prices of such products in a timely manner to guarantee the normal supply of market so that enterprises will not shift burden through the price rise of external sales. Instead, they will vigorously organize production, increase the effective supply of market, and satisfy the needs of society.

#### D. Rectifying the pricing method of commodities in the field of circulation.

Currently, the commodity pricing method of the circulation field is fairly confusing and the situation of its actual implementation varies in different localities. The same commodity is priced based on the addition method in one place and the deduction method in another. The same commodity has more than one price in the same market. Some enterprises seize the opportunity to increase prices, making it very difficult for the state and localities to exercise control. Therefore, there should be clear unified stipulations for the commodity pricing of circulation field. There should be only one pricing method for one commodity. When we calculate the local sales price of commodities using the addition method, we should use the wholesale price (or factory price) stipulated by the production area as the starting point of price calculation and add to it the transportation and miscellaneous expenses incurred by the flow of commodities in the rational direction and the specified rate (amount) of comprehensive disparity. When we calculate the external sales prices of commodities using the deduction method, we should use the retail price stipulated by the country of origin as the starting point of calculation and then add to it the specified rate (amount) of regional disparity.

#### E. Rectifying circulation channels and strengthening the price control of circulation field.

In the circulation field, there are too many channels and changes of hands, and too many commodities are being transported back to their place of origin and or by a roundabout route. It is true that "when commodities travel, prices snowball." Therefore, we should strengthen the rectification of circulation channels and enhance price control. The number of circulation channels should be determined based on what kind of commodity it is, where the economic region is, and whether or not the direction of commodity is rational. Management units are not allowed to buy from retail units and sell at higher prices. Expenses incurred by the irrational direction of commodity flow are not allowed to be calculated into the cost of commodity. The difference between the high price of enterprises which have excessive channels and the reasonable price of enterprises which have regular channels should be picked up by enterprises themselves, not shifted to consumers.

#### F. Strengthening price supervision and inspection, enhancing legal and disciplinary concepts, and upgrading the social function of price supervision.

To maintain the basic stability of market price, consolidate the achievements of the price reform, and strictly stop the price rise of external sales and indiscriminate price increases, we must strengthen price supervision and inspection. Those units and individuals who have violated price rules and regulations by engaging in the transfer and resale of commodities for profits or in disguised price increases should be subject to severe

punishment, and must not be allowed to get away with any economic benefits. Especially those units which have practiced two prices, internal and external, and discriminated in prices, should be investigated to find out the responsibilities of the unit, leadership, and people who are actually involved. At the same time, we should also establish different levels of price supervision and inspection networks, increase the openness of price control, supervision, and inspection, force enterprises to carry out quality service, price competition, and standard operations within the limit specified by the state policy, conscientiously implement the state principles and policies on prices, and safeguard the immediate interests of the broad masses of consumers.

#### Problems Regarding Enterprise Merger Require Resolution

90OH0191A Beijing ZHONGGUO JINGJI TIZHI GAIGE [CHINA'S ECONOMIC STRUCTURE REFORM] in Chinese No 11, 23 Nov 89 pp 19-20

[Article by Jin Zhongxiang (6855 1813 4382) and Zhong Biguang (6945 3968 1684): "Solutions to Problems in Enterprise Merger"]

[Text] Since 1984, when the merging of enterprises began in China, 2,856 enterprises have incorporated 3,424 others in the country. The merging of enterprises has developed both in form and substance. It has played a positive role in rationally regulating and fully utilizing existing assets and in achieving optimum distribution of essential productive factors. There are also problems.

- There is excessive government interference, particularly manifested in two ways: First, some enterprises, though heavily in debt and on the verge of bankruptcy, are still being supported with financial subsidies or bank loans. Second, well-managed enterprises are prevented from taking over other enterprises.
- Despite trade realities, some enterprises have annexed enterprises of other trades. In some places, commercial enterprises have annexed industrial enterprises. As a result, existing assets are not fully and effectively utilized.
- Mergers can be prompted by improper motives. China's enterprises have long been ranked according to their assets and number of employees. Thus some enterprises are merged in order to be elevated to a higher enterprise rank and administrative standing.
- The assets of merging enterprises are not properly accounted for, and the method of calculation differs from place to place. There is no unified nationwide standard.
- The workers and staff members of both enterprises in a merger are worried. Those of the annexing enterprise are afraid that they might lose some benefits, and those of the annexed enterprise are afraid of being

discriminated against, especially the retired, who fear that they might be left in the cold.

These problems should be studied carefully in order to find solutions.

It is necessary to establish and perfect a number of inter-regional and intertrade enterprise title markets, which should be open to all kinds of owners. The enterprise title markets should operate on the principle of openness. They should make periodical announcements on the basic conditions of enterprises prepared to merge or be merged with other enterprises, so that both sides can make a choice. The markets should also provide the two sides with asset appraisals, feasibility studies, and other services.

The "Bankruptcy Law" should be truly implemented. In China, it is rather difficult to declare an enterprise bankrupt. Some enterprises, even heavily in debt or insolvent, are still allowed to be merged with other enterprises, which actually protects the failing enterprises at the expense of the good ones. The state should urge the departments concerned to take strong measures against enterprises that have long been losing money and have become insolvent, deny them loans and subsidies, and force them to declare bankruptcy.

Financial institutions may engage in risk loan operations. The establishment of China's first risk bank, the Joint Risk Loan Company of the National Industrial and Commercial Bank of China and Shenyang City, has opened the way for the following operations: 1) Starter loans for losing enterprises, mainly as capital needed by the enterprises to start production again and reorganize their business operations. 2) Recovery loans—when an enterprise stops losing money and begins to make a profit, it may still have some idle funds. Therefore, the financial institutions should set a limit to recovery loans, and interest rates should fluctuate along with market changes. 3) To help losing enterprises bring into full play their specialties and strong points after overcoming their difficulties, they should be granted efficiency loans at a higher interest rate, but the size of the loans should not exceed their ability to repay.

Enterprise mergers should be ruled by law. Problems in the merging of enterprises must be settled by legal means. For this reason, it is necessary for the state to draft laws concerning enterprise mergers as soon as possible. The laws should define the legal positions of the two sides in a merger, the property rights in a merger of enterprises belonging to different types of ownership, the rights and obligations of the two sides in a merger, and the nature of ownership after the merger. They should provide for the placement and retirement of workers and staff members of enterprises being incorporated into others, notarial and judicial protection, the handling of disputes, and so forth.

### Commentary on Economic Rectification, Reform

HK0602101890 Beijing ZHONGGUO JINGJI TIZHI  
GAIGE [CHINA'S ECONOMIC STRUCTURE  
REFORM] in Chinese No 12, 23 Dec 89 p 8

[Commentary: "Sum up Experience, Reach a Common Understanding, and Forge Ahead Steadily"]

[Text] Historical experience has proved that maintaining the sustained, steady, and coordinated development of the national economy is a basic principle we should uphold for a long period. It is also a basic criterion for measuring our achievements in economic work and reform. Great achievements have been made in economic development for the last 10 years but there are still some problems, which find expression in our failure to consistently adhere to the principle of sustained, steady, and coordinated development. Specific examples are a lack of coordination between major economic relationships, an excessive economic growth rate, and an excessive fluctuation rate. We should soberly consider the cause of these problems and difficulties and seriously sum up our experience.

We should be aware of the gravity of the current economic situation and the arduousness of rectifying and improving the economy. On the other hand, we should not lose sight of our favorable conditions. The people throughout the country should unify their thinking and understanding and shift the work focus to rectifying and improving the economy and deepening reform, instead of just paying attention to drawing up plans, making investments, and carrying out construction projects. In terms of work guidelines, we should not be overanxious for quick results in construction, reform, or economic rectification and improvement.

Over the last 10 years we have implemented many reform policies and measures and this has promoted the productive forces. In the course of rectifying and improving the economy, we should preserve the stability and consistency of these reform policies and measures. We should persist in what is correct, supplement what is inadequate, and improve what is imperfect. Practices that have been proved wrong should be straightened out, but a cautious attitude is necessary. Some people set deepening reform against economic rectification. This is wrong. Economic rectification is being carried out under the prerequisite of reform. Reform is being deepened in the course of rectifying and improving the economy. Economic rectification and improvement is aimed at providing more favorable conditions for reform and opening up. Economic rectification and improvement is an indispensable condition for deepening reform. Inflation is now serious, the economic order is confused, and the economic structure is worsening. If this situation is not changed, many reform measures cannot be put into effect. If the macroeconomy is out of control, many microeconomic measures cannot produce the expected results and some will even play a harmful role. In this sense, an inactive attitude toward economic rectification and improvement means an inactive attitude toward reform.



China's economic structural reform is a self-improvement of the socialist economic system. It is necessary to persist in the planned commodity economy on the basis of public ownership. The previous method of excessive control has proved unsuccessful in practice. Solely practicing the market economy could bring about economic confusion. Therefore there is a need to coordinate the planned economy with regulation by market mechanism to ensure the sustained, steady, and coordinated development of the economy. This is an important guiding principle for China's economic structural reform. In accordance with this principle, deepening reform in the course of rectifying and improving the economy should focus on: First, stabilizing, enriching, adjusting, and improving reform measures which were worked out several years ago; second, concentrating efforts on drawing up plans for economic rectification and improvement; and third, gradually setting up a macroeconomic control system which can help promote stable economic development in the course of microeconomic invigoration.

### **Specialists Unanimously Support Perfecting Contract System**

90OH0281A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 24 Dec 89 p 1

["Eighty Expert Scholars In Beijing Recommend Perfecting the Contract System As the Key To Escaping Economic Predicament"]

[Text] Over 80 expert scholars from the economic and enterprise communities convened a few days ago in Beijing, to discuss the theoretical basis of the enterprise contract system and the current policy of deepening reform. They were unanimous in their view that perfecting the contract system is the key to escaping our economic predicament. The common view of the professors, high ranking economists and high ranking engineers at the conference was that the enterprise contract system is still imperfect in several aspects, but in practice has displayed great vitality. At the core of perfecting the system is correcting the profit relationships among the state, the enterprise and the workers. Since the contract system upholds the public ownership system, it solidifies the foundations of the latter system, as well as advancing development of production forces and producing enterprises. Therefore it is totally in accord with our party's call for "one center, two fundamental propositions." Jiang Yiwei [5592 0001 5517], noted economic scholar on the staff of the Chinese Academy of Social Sciences' Industrial Economics Institute, said that reform of China's system of enterprise management must embody several fundamental principles, namely, make the public ownership system the principle part of the system of ownership. Workers and other staff, plant managers, will all be owners of the enterprise. Implement distribution according to labor, linking wages and benefits. The contract management responsibility system embodies these principles very well. He maintained the opinion that state-owned enterprises can carry out state ownership with state operation, or state ownership with private operation (leasing to individuals), but the majority of enterprises should carry out state

ownership with group operation, that is, an all-personnel contract. So the most important thing in perfecting the contract system is promoting the all-personnel contract. The high-ranking economist Xu Xiqian [1776 2522 0467], director of the First Metal R&D Corporation, believes that the contract system embodies the basic characteristics of socialism in three ways: the first is to turn enterprise staff into the owners of all the people's production materials, through centralized powers; the second is to implement distribution by labor under the requirements of a socialist commodity economy; the third is that the contract system can make the public ownership system serve concurrently as a market regulatory mechanism and a planning regulatory mechanism. Moreover, it can make these functions link up to mutually supplement each other, with the result that the contract system will turn from a commodity economy to what is necessary for linking a planned economy with market regulation. Li Zhongfan [2621 1813 0416], researcher in the State System Reform Committee's Theoretical Propaganda Department, noted that the contract management responsibility system, a new enterprise management mechanism, is the driving mechanism, and is organically linked with our regulatory mechanisms and our restraining mechanisms. Implementation of the contract system could accomplish three objectives: raise the efficiency rate of enterprises' use of resources; link workers' benefits with those of the state; link what is good and bad for workers with those benefits to the state itself. These accomplishments would basically eliminate the two major corrupt practices in China's enterprises: the lack of definition of resource use, which leads to low economic benefits; and eating from the common pot, which leads to a lack of enthusiasm in workers. The conferees also discussed specific ways of developing and perfecting the enterprise contract system. Some experts and scholars recommend that the core is to uphold and perfect the contract system, with suitable reforms made in such areas as finance, planning, merchandising and foreign trade. At present there could be a study of 100 particularly large enterprises from various industries: give to these full powers of self-governance, making them openly managed, and formed into a group of enterprises which functioning concurrently in production, research, finance and foreign trade. With these as the nucleus, enterprise colonies could be formed. The conference was co-sponsored by 11 units, including the First Metals Research and Development Company, the Academy of Social Sciences Institute of Philosophy and the Central Party School's Marxist-Leninist Research Institute.

### **Editorial Stresses Improvement of Material Distribution**

90OH281B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 31 Dec 89 p 1

[Editorial by Wu Zheng (0702 2398): "Control Unrest, Control Distribution; Improve the Allocation of Resources"]

[Text] In the realm of circulating production materials, two current problems stand out: putting the chaos in order, and distribution of materials. The fundamental

mission in the administration and control of the circulation of production materials is: control unrest, control distribution, establish a regular circulation process, concentrate materials appropriately and improve allocation of resources. Once this mission is accomplished, we should set about doing the following:

First, raise as appropriate the unified, national quota for allocation of important resources, to emphasize the serious nature of mandatory plans. In recent years, there have been many cutbacks in both the variety and quantity of the resources allocated to China's mandatory plans. There are now 72 varieties available, down from the 523 available in 1985. Of the national output of important materials, the proportion allocated to mandatory plans is: steel, 42.6 percent; nonferrous metals, 35.4 percent; coal, 45.2 percent; wood, 26.6 percent; cement, 12.2 percent. To alter the situation we had in the past, where there was excessive uniformity and overly rigid management, there was an expansion of enterprises' power to control their own resource allocations; in order to do this, it was necessary to cut back somewhat on the variety and quantity of materials allocated to mandatory plans. However, there was too much of a cutback, so that along with the process of market growth and several other decisive conditions, too much was done too quickly. Looked at from the standpoint of the nation's key tasks in production and construction, there are too few materials which are controlled by the state, while for a variety of reasons the market resources are not being allocated to the key production enterprises and construction units. Therefore, it is essential to make appropriate increases in the proportion of materials allocated to mandatory plans. In the adjustment of the national allocation of materials, there can be no cutbacks in the base for those enterprises we had originally, and where that base is low, there should be suitable increases. For those enterprises which have gone into production recently, the adjustment should be according to their proportion of state investment. Products which are marketed by the enterprises themselves should be handled on a case by case basis, with a fixed quantity supplied by the state according to what is needed to improve the allocation of resources. Besides this, every location, department and enterprise must accept orders for goods in accordance with the variety, quantity and price stipulated in the plans, as well as with the price stipulated by the state, accepting contracted delivery, and giving their most earnest effort at distributing, contracting and providing adequate supply.

Next, implement a slanted policy of distribution and supply, putting into practice "two-way guarantees." At present, adhering to national industrial policies, select a group of key, backbone enterprises which are of significance for the national economy, the people's livelihood and good socioeconomic benefits. Then, put into practice for these the two-way guarantee methods by which the state guarantees the principal production conditions, and the enterprises guarantee the products they hand up to the state. Implement business accounting and cancellation after verification in the nation's key construction

projects, according to construction schedules and practical needs. Some key projects can still be supplied through supplementary contracts arranged with resource departments. At every level, goods and materials departments and enterprises should control their resources inside and outside of plan, as well as control the outside of plan resources they have themselves organized. These should include a coordinated series of resource exchanges, fund raising which begins a division of materials, and the use of readjusted foreign exchange imports of goods and materials, etc. These should all be according to what is required by national industrial policy, slanting supply and marketing to the priority of guaranteeing the needs of key production and construction.

Third, move forward in perfecting the materials market, and rectify the market process. The first step must be a rigorous examination of the qualifications of the chief materials management units, according to the State Council directive to the Ministry of Materials titled, "Opinion On the Further Reorganization of the Various Classes of Materials Companies," which abolished five classes of materials companies. There must be a major effort given to managing the market and building the legal system, which will improve further those markets that are just now developing, relying upon markets that are legally operated and managed. This will also raise the markets' transparency, and prohibit such corrupt practices as illegal transactions and kickbacks. The market will become more open, legalized, monetarized and negotiable. Out of plan production materials that are self-marketed by the producer will be traded in an open system, immediately making public the quantity of resources, prices, marketing objectives and accounting methods. It will prohibit private conduction of operational activities involving important production materials. The first breakthrough must be made next year in rectification of the coal market.

Fourth, create the conditions necessary to resolve the problem of a "dual track system" for pricing of production resources. During the time of controlling rectification, link it with price adjustment. First of all, concerning the pricing of unified coal allocations, change the "dual track" into a "single track." After that, devote further effort to eliminating the varieties of materials which are priced under a "dual track" system. Those products for which it will be difficult to eliminate "dual track" pricing in the short term will have their plan prices raised appropriately, strictly controlling needs and strengthening the methods for managing prices of self-marketed goods, and reducing further the variation between the two prices.

Fifth, maximize the use of state-operated enterprises as a principal channel of communication, increasing the state's controlling power. Through several decades of construction, the national materials system has an operational network of 39,000 points, with more than one million employees and several billion yuan in fixed assets. We have a marketing, management, supervision,

and control system that is fairly close to perfect—a force that can be relied upon. In rectification, it is essential that the materials system enterprises must be more prominent as a medium of communication.

### Current Economic Tasks Spelled Out

90OH0273A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 12, Dec 89 pp 1, 8

[Text]

### 1990 Basic Tasks of Industrial Production and Transportation

1990 is the final year of the Seventh 5-Year Plan. It is also a crucial year for rectification and improvement. Striving to do a good job in industrial production and transportation next year is extremely important for stabilizing the economy and the overall situation. Starting from present production realities and the need to rectify, improve, and deepen the reform, the 1990 basic production tasks for industry and transportation are: under the premise of shrinking total social demand and strictly controlling prices, to reorganize the economic order, readjust the industrial mix, strive to maintain appropriate increase rates, increase effective supplies, and improve economic results. In order to attain this goal, when making arrangements for production we must take note of the following points throughout the year and in particular during the first quarter:

- We must have austerity for at least several years. In work arrangements we must uphold the principle of austerity, resolutely shrink investment and consumption demands, and resolutely harness the chaos in the area of production circulation.
- We must get a tight grip on production increases and economizing. Production increases must be based on uncovering the potential to lower consumption and improve quality. We must lower consumption-fueled production increases, improve product quality, and improve economic results-fueled increases.
- We must look towards markets. We must encourage production based on sales, and increase products that are suited to the market, that are export exchange earners, that substitute for imports, that are needed in the people's daily life, and those that aid agriculture. We must ensure effective supply and demand.
- We must uphold coordination of the planned economy and market regulation, strengthen macroeconomic controls and production adjustment, maintain the earnestness of directed planning, and improve the product supply contract honoring rate.
- In line with the demands of industrial policy, we must uphold necessary centralized uniformity; earnestly reorganize the industrial, enterprise, and product mixes; and shrink general processing industries.

—We must uphold and guarantee the principle of having key matters look after general matters. We must actively support and enliven medium- and large-sized backbone enterprises; create a normal production environment for them so as to respond to greater demands of basic industries for energy resources, transportation, important raw materials, and other basic equipment.

—We must persevere in opening to the outside world, and expand foreign economic and technical exchanges. We must increase exports and earn more foreign exchange.

**Reverse Market Sales Fatigue as Soon as Possible** We must adopt forceful measures and reverse the slump in market sales as soon as possible. This relates to the pressing task of whether the economy can develop in a stable manner.

First, we must take full advantage of the opportunity presented by production increase rates falling after rises, and vigorously readjust the industrial and product mixes. In line with the demands of industrial policy, we must safeguard the following: agricultural production materials; famous brand durable consumer products, daily use industrial necessities and small commodities; energy resources, transport, primary raw materials and other basic industrial products; and heavily processed and high added-value export goods. We must truly slant energy, raw materials, and investment toward these industries. At the same time, we must improve, restrict, redirect, or halt production or enterprise whose products are of high consumption, inferior, and highly pollutant. All enterprises must work on improving product quality and grades, aiming for low-priced fine goods and thin profits on maximum sales. We must upgrade the quality of service, improve service attitudes, and win markets.

Second, we must continue to enliven circulation and enhance product sales. Enterprises must do good market research and surveys, endeavor to develop new products, transform small commodities, and increase production of products suited to markets. In response to domestic needs, some places recently have gone specially to Hong Kong, Macao, and foreign countries to purchase small commodity samples, hold exhibitions, engage in competitive enterprise bidding, obtain copies, digest them, and so on, to promote practical new commodities. Such methods are good. At present, the peasants have great potential purchasing power. Industrial goods must be directed to villages even further to open rural markets. We must actively promote previously used effective sales methods such as products sales exhibitions, purchase order meetings, delivery to villages by using open trailers, etc.

Third, we must actively develop international markets. Under the domestic situation of raw material shortages and market slumps, we must take strong measures; continue to develop enterprises with both ends abroad; use various forms of trade such as processing imported



materials, compensatory trade, and labor exports, to increase export exchange earnings and develop international markets.

Fourth, we must ameliorate specialized managerial methods and resolve the problem of product overstocking as soon as possible. At present, we must seriously study policies related to the entire gamut of specialized businesses and arouse the initiative of enterprises. We truly must increase sales volumes, have fewer links, more channels, and not manage to death specialized business commodities.

#### **Must Continue To Implement Various Contract Systems**

We must continue to implement various contract responsibility systems, such as local fiscal contracts; foreign trade foreign exchange contracts; railroad, coal, and other industrial contracts, and large enterprise contracts. Some of them have issued statements, others have signed contracts. All of them have yearly limits. The majority of them will mature in 1990, some in 1991. During the effective period the contracts must continue to be implemented and improved. Here it should be pointed out that since the implementation of contract responsibility methods, we have seen their positive side, which ought to be affirmed. Likewise, we have also seen their negative side, primarily in that they may engender short-sighted behaviour. We have a dual attitude regarding this issue: First, to maintain the relative stability of policy, we cannot change it at will. This is advantageous to stabilizing the morale, the rank and file of the work force, and the economy. Second, to seriously sum up experience and further study deeper enterprise reform methods. Hereafter, to allow China's reform to be both positive, reliable, and sturdily implemented, before any great reform measure appears, it must be preceded by solid, scientific, practical plans as well as essential propaganda and public opinion work.

#### **Appropriately Increase Proportion of Directed Planning**

A socialist economy is a planned commodity economy based on public ownership. Its basic characteristic is the requirement that the state economy develop in a planned and proportionate way. In the process of controlling and reorganizing the state economy at present, we must further enhance the role of directed planning, stress the seriousness of planning, concentrate needed finances and materials, and strengthen central macroeconomic control capabilities. We must unite both economic planning and market regulation; readjust the principle of planning for a bit longer time; renew the scopes of partially directed planning, guided planning, and market readjustment; appropriately increase the proportion of directed planning; and formulate effective and practical means for directed planning as soon as possible. We must make all of China a game of chess, overcome difficulties, and pass through barriers.

#### **Conference Calls for Better Administration of State Property**

90OH0272B Beijing JINGJI CANKAO in Chinese  
7 Jan 90 p 1

[Article by staff reporter Ye Guiguang (0673 2710 0342): "Total Value of State Property Reaches More Than 1.6 Trillion Yuan; Comprehensive Enhancement of Its Administration Is a Pressing Task"]

[Text] On 6 January the first national work conference on the administration of state property, which was held in Beijing, revealed: As of the end of 1988, in China's budget state-run enterprises and state-administered enterprise units had state property with a total original value of 1.615 trillion yuan. If to this is added the property formed by loans outside the budget and other loans of a commercial nature, then the resultant figure is far greater than this total. This is the material foundation for our socialist system and the principal source of the state's financial revenues. Urgently plugging up loopholes in this huge sum and enhancing its administration will maintain and constantly increase its value.

Tang Bingwu [3282 0014 2976], director of the State Administration of State Property Bureau, said that in the previous period, because of the influence of the ideological trend of bourgeois liberalization and the fact that a new state property administration system had not been completely set up, various kinds of ideas and behavior that encroach on state property rights and interests gradually tended to change into theory and become legal. At the present time we must take vigorous measures to administer well and use flexibly this huge sum of wealth that the people of the entire country worked hard for 40 years to accumulate, and insure the protracted, stable, and coordinated development of the socialist economy.

Tang Bingwu thinks that the main tasks in enhancing state property administration over the next two or three years are:

- In checking property and assets, find out the "family property" and explore ways to solve the problem of "living off past gains" in the handling of state property.
- In the administration of property rights, correct and deal with according to law all kinds of behavior that harms the interests of state property. With regard to the joint-stock system, the rent system, and other state property, we must set up a standardized property rights administration and a standardized income distribution system, so as to prevent the occurrence of behavior that harms the state's rights and interests.
- Through annexation and transfer, promote the rational circulation of the accumulated state property.

- Perfect the contract business responsibility system of state-run enterprises. The state property administration department must be one of the contracting parties, and coordinate with other relevant departments in rationally readjusting and determining the enterprises' contract base.
- Cooperate with relevant departments in enhancing the supervision and administration of the state's investment activities, so as to improve investment results.
- Formulate laws and decrees, rules and regulations for state property administration. This year the work of reporting and approving and of drafting detailed rules for implementation of the "Provisional Regulations for State Property Administration" and "Provisional Regulations for State Property Assessment" must be done, so as to strive for their promulgation and implementation within the year.

### Experimental Reform Points To Be Expanded

90OH0272A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 9 Jan 90 p 1

[Article by staff reporter Ding Genxi (0002 2704 0823): "State Restructuring of the Economic System Commission Makes New Decision: Planned Expansion of Content and Scope of Reform Experimental Points"]

[Text] This reporter has learned from the national work conference on restructuring of the economic system held by the State Council: The State Restructuring of the Economic System Commission has decided, in the administration and reorganization stage, in the reform work of the cities there must be a planned move forward of the all reform experimental points, summing up experiences and stabilizing, replenishing, readjusting, and improving the reform experimental points that have already appeared, and also in a planned, measured way, expanding the content and scope of the experimental points.

There are now in this work six key points on which to get a good grip:

- Further deepen the comprehensive reform experimental points in the 14 planned single-row cities and some other cities. In this year and the next, the focus of the cities' comprehensive reform would be: deepen the reform of enterprise administrative mechanisms; systematize well the markets; make sound the tax system and enhance tax collection and management; and enhance the building of the cities' legal systems.
- Continue to push forward experiments in reform and opening up to the outside world in Guangdong, Fujian, and Hainan. We must conscientiously implement all the policies of the central authorities for these three experimental zones in reform and opening up to the outside world, pay attention to coordinating the relationship between the central authorities' policy of macroeconomic regulations and the special policies

for the experimental zones, and push forward the change in economic mechanisms. Through experiments provide experiences in establishing financial markets, real estate markets, labor markets, and commodity markets—all of which the state can regulate—as well as in establishing a state-owned property administration system and a social security system.

- Further initiate county-level comprehensive reform experimental points. All localities must make use of the opportunity provided by administration and reorganization, and, while handling well the building of township-town basic-level political power and of county-level organization reform experimental points, deepen the comprehensive reform of the county-level economic management system, and establish a good township-town commodity economy order.
- Vigorously but safely conduct experimental points on enterprises' "separation of tax and profit, post-tax loan repayment, and post-tax contracts," as well as the implementation of the joint-stock system in some enterprises. In all provinces where the right conditions exist, one or two cities can be selected this year as experimental points for separation of tax and profit and post-tax contracts. The joint-stock system experimental points in a small number of enterprises are now mainly being consolidated and perfected, and various types of problems that have appeared are being solved, so as to gradually standardize the experimental points.
- Continue to conduct experimental points on the housing system. In line with the spirit of State Council Document No. 11, 1988, by means of renting and issuing certificates, renting and selling in tandem, and using rents to promote sales, gradually promote the transformation of housing into a commodity.
- Accelerate reform of the social security system at experimental points. We must, proceeding from China's national condition, make a comprehensive study of the ways of raising money for social security and for its management and operation, sum up experiences gained at experimental points, and accelerate the pace of reform in this respect.

### Conference Adopts Measures for Enterprise Reform

90OH0287A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 11 Jan 90 p 1

[Article: "Seven Points of Reform Decided Upon at the Conference on Restructuring the Economy"]

[Text] At the "All-China Working Conference on Restructuring the Economy," held in Beijing from 4 to 8 January, proposals were made to substantially deepen the enterprise reform in the course of this year's movement to "improve the economic environment and rectify the economic order" in seven directions:

1. *To perfect and develop the contractual management responsibility system in the course of improving the economic environment and rectifying the economic order, to consolidate policies, promote what is beneficial and eliminate what is harmful, to differentiate directives, and to increase contributions.* Consolidating policies means to stabilize the major content and essential patterns of the contractual responsibility system. Promoting what is beneficial and eliminating what is harmful means to bring into play the stimulative mechanism of the contract system when adopting measures to overcome all problems that will arise in implementing the contract system. Differentiating directives means that we shall, based on the "Contract Regulations," act in compliance with the state's industrial policies when adopting differentiated methods, thus avoiding "arbitrary uniformity," in various different respects, such as contract duration, base figures, progressively increasing proportions, selection and income of managers, internal distributions, etc., to have them adapted to different regions, different lines of business, and to different types of enterprises. Increasing contributions means that in any new round of contracting, enterprises must start out from the interests of the state, start out from the overall situation, and must on their own initiative accept the need for greater contributions to the state as their major guiding ideology.

2. *Continued implementation and perfection of the factory director responsibility system.* The factory director responsibility system and the contractual management responsibility system of enterprises are closely linked up with each other. Without the factory director responsibility system, the contractual management responsibility system of enterprises would be completely unworkable. An extremely important problem here is the proper handling of the party-administration relationship within the enterprises. The factory director and the party committee must support each other, cooperate with each other, and make concerted efforts for the good of the enterprise. Reliance must be placed on the entire complement of staff and workers, their enthusiasm and initiative must be stimulated, and they must be led in joint efforts to overcome all difficulties.

3. *Revitalizing large- and medium-sized enterprises and having them prove themselves to the fullest extent as backbone of the economy.* Large- and medium-sized enterprises must set even higher targets for the improvement of their products, must devote great energy to their technological progress, must ceaselessly develop new products, and must effectively institute various internal reforms and controls with a view toward greater scientific and technological efficiency, thereby setting an example to others. We must also create a favorable external environment, as such is required for the normal operation of all large- and medium-sized enterprises.

4. *Further development of enterprise conglomerates.* This year's major task in the development of enterprise conglomerates is qualitative improvement, intensified assertion of their practical role, ceaseless strengthening of conglomerate nuclei, forming close-knit strata within the

conglomerates, and strengthening the bond between all members of the conglomerates.

5. *Adopting measures in support of enterprise mergers.* Enterprise mergers meet the needs of "improving the economic environment and rectifying the economic order," realize the needed adjustment of the economic structure, and are an important means of enhancing effective supplies. Enterprise mergers are presently facing new problems, namely that superior enterprises are little motivated toward mergers and have limited capabilities to carry out mergers, and that increasingly the inferior enterprises demand to be taken over in mergers, while less often the superior enterprises will, on their own accord, propose mergers. The focus of all enterprise merger efforts this year must therefore be on creating favorable conditions and on stimulating and mobilizing the enthusiasm of superior enterprises to carry out mergers. Departments of the government must render active guidance and give encouragement, must effectively organize and coordinate, and must support all mergers that are in line with the state's industrial policy. While observing the principle that state funds must never be made to suffer losses, various flexible patterns of mergers should be adopted.

6. *Enhancing enterprise management, aiming at greater efficiency in business management.* This year, our guiding ideology, which governs all production and business operations of enterprises, will be shifted toward greater initiative in tapping internal potential, reducing costs, raising quality, promoting technological progress, and increasing returns. We must earnestly effect a close integration of enterprise management with economic restructuring and technological progress.

7. *Giving new impetus, in a planned way, to various reform experiments.* We must, for instance, further deepen the comprehensive reform experiments in the 14 cities listed as separate units in the state plan and in some other cities. We must continue to push on with the reform and opening-up experiments in the three provinces of Guangdong, Fujian, and Hainan, and must additionally launch comprehensive reform experiments at the county level. We must actively and in a safe manner carry out experiments among enterprises in "separating the flow of taxes and profits, post-tax repayment of bank loans, and post-tax contracting," also have a few enterprises experiment with shareholding systems. We must continue experiments in reforming the residential housing system, and must actively engage in experiments in a reform that would establish a social security system.

### Sharp Rise in Production Costs During 1989

HK0602021490 Beijing CHINA DAILY in English  
6 Feb 90 p 2

[By staff reporter Zhang Yu'an: "Production Costs Rise as Profits Fall"]

[Text] Production costs last year rose sharply, up by 22.4 per cent in State-run industrial firms covered by the

central government's budget, a report released jointly by the State Statistical Bureau, the State Planning Commission, the Ministry of Finance and the People's Bank of China said.

The report complained that poor efficiency has become a major obstacle that restrains China's economic development.

Except for Tibet, which is not included in the statistics, all of the 29 provinces, autonomous regions and municipalities had a sharp rise in production costs, the report said.

Profits and taxes from sales of industrial products, on the other hand, dropped to 17.27 per cent from the previous year's 19.3 per cent.

Profit and tax rate of funds also had a general decrease, down to 19.4 per cent in 1989 from 21.99 per cent in 1988 in State-run budgeted industrial firms.

In 1989, per capita productivity increased only by 1.6 per cent, which was 7.7 per cent less than the 1988 figure, the report said.

The release of joint reports on China's eight economic targets at scheduled times is a system that started at the beginning of last year.

These indexes, along with those of fixed assets investment, bank loans, payment to the workforce and energy costs are now published monthly.

They are designed to help departments concerned to strengthen and improve their microcontrol power on the national economy, restrain social demand, reduce the inflation rate and instruct enterprises to pay more attention to raising their economic efficiency instead of only seeking high output value.

According to yesterday's report, growth of China's consumption funds slowed last year.

Total wages of workers were 264 billion yuan (\$56.17 billion), up 14 per cent over the previous year but down 9.1 per cent compared to the 1988 growth rate.

Total bonuses were 55 billion yuan (\$11.7 billion), up 23 per cent but down 18 percentage points compared to the growth rate in 1988.

In 1989, total bank loans in China reached 1.24 trillion yuan (\$263.89 billion).

The People's Bank of China, the country's central bank, tightened credit during the past year under the austerity programme.

Newly-granted loans last year were 185.2 billion yuan (\$39.4 billion), surpassing the planned 160 billion yuan (\$34 billion) quota.

Of the total new loans, only 60.1 billion yuan (\$12.79 billion) was granted in the first three quarters last year.

Entering the last quarter, especially in the last two months, new loans increased sharply, topping 99.1 billion yuan (\$21.1 billion), which was 53.5 per cent of the year's total new loans, the report said.

However, there was also a petty piece of good news, energy consumption per 10,000 yuan (\$2.128) output value having dropped by 1.43 per cent, the report said.

## PROVINCIAL

### Guangdong Steps Up Deepening of Reform

*HK2802132090 Hong Kong TA KUNG PAO in Chinese  
21 Feb 90 p 2*

[Report by Liu Li (0491 0448): "Two Key Points for Deepening Reform—Speech of Chen Tie, Research Fellow of the Economic Development Research Center of the Provincial Government"]

[Text] Prior to the discussion of the issue of deepening reform, it is necessary to understand that reform is a requirement of the development of the socialist system itself. All measures reflecting the law of socialized production and the common law of the development of the commodity economy that are adopted in the course of reform are not peculiar to capitalism. In 10 years of reform, Guangdong has followed the decisions of the Central Authorities and scored relatively great achievements. It must continuously adhere to and develop this work.

### High Levels Affirm Reform

Opening up and reform have been from start to finish an orientation to which the central government adheres. Guangdong has worked hard to promote opening up and reform for 10 years and been supported by the Central Authorities all along. In the beginning of this year, many high-level personages of the Central Authorities came to Guangdong, affirmed Guangdong's achievements, and pointed out: In the course of improvement, rectification, and deepening reform, Guangdong can develop its economy a bit faster than the whole country can but must not be overanxious for quick results. Guangdong must seriously sum up its experience acquired since reform and opening up and conscientiously readjust its economic structure so that its economy can develop ahead in a continuous, steady, and coordinated way.

While inspecting work in Guangdong, Vice Premier Tian Jiyun pointed out: Guangdong has accumulated many good experiences in reform and opening up, must continuously adhere to this work, and must not make changes lightly. He stressed: For the township and town enterprises, we must, on the whole, adhere to the principle of hard work, foster the strong points, circumvent the weak points, and continue to bring its superiority into play.

### Conditions Possessed by Itself

Judging from the Guangdong situation, even if the scope of reform may be slightly smaller in the period of improvement and rectification, Guangdong must carry out reform in conjunction with improvement and rectification. As a comprehensive reform experimental zone, Guangdong must continue experiments and pilot projects. Viewing from another aspect, Guangdong includes several special economic zones under the jurisdiction of its government and had a large amount of input several years ago. It is now the time for giving play to its benefit and it can definitely develop in the economic aspect slightly faster than the whole country can. In addition, Guangdong first regarded the development of the export-oriented economy as its orientation and has made a fairly good progress. Market regulation forms a very large proportion, roughly accounting for 75 percent to 80 percent. It is different from some places in the interior whose market regulation forms only a very small proportion and can only play a supplementary role. In the future, the work of opening to the outside world will be continuously expanded and regarded as a key point. It is imperative to vigorously develop the export-oriented economy.

Judging from the Guangdong market, after one year's improvement and rectification, price rise has been alleviated, people's anticipation of a price hike has changed, and some commodities have become temporarily unmarketable. All this becomes a favorable opportunity for carefully putting forward some measures for economic reform and creates conditions for deepening reform in Guangdong.

Let us go back to the issue of deepening reform. In the period of improvement and rectification, the key point is reform in the micro sphere with perfecting the enterprise contracted management responsibility system as the center as well as reform in the macro sphere with strengthening indirect regulation and control [tiao kong 6148 2235] ability as the major work.

The enterprise contract system has proved to be an operation mechanism that tallies with the national condition and suits the present level of the development of the productive forces and the present level of management. However, as some questions now exist, it is necessary to have a series of specific provisions. According to the provisions of the state industrial policy, in the light of the realities of Guangdong, and with the average profit rate on funds of the same trades used as reference, we must emphatically encourage or restrict some trades, reconsider the order of importance of technological transformation of those enterprises and the anticipated effect of the changes in prices and tax rate on benefit, and rationally stabilize the contract base. The examination indexes include the index for the situation in the completion of technological transformation, the product quality index, the material consumption index, and the safety production index. It is also necessary to put the examination system on a sound basis.

In addition, it is also essential to continuously and persistently perfect the coordinated reforms, such as the

system of factory director's (manager's) responsibility and the enterprise internal economic responsibility system and to make experiments in the stock system.

Over the past 10 years, Guangdong has done some work in the aspect of macroeconomic regulation and control [tiao kong 6148 2235] and scored certain achievements but what it has done falls far short of what are actually expected. At present, under the principle of the state industrial policy and in the light of the realities of Guangdong, we must apply the financial, tax, monetary, and price measures and comprehensively adopt the forms of administration, economy, law, record-keeping, and ideological education to handle the relations between curtailment and maintaining, between reduction and increase, and between suppressing the overheated economy and maintaining the speed of suitable development in a coordinated and correct way, to readjust the industry mix and product mix, and to enable Guangdong to develop in a continuous, steady, and coordinated way and faster than the national average level.

### Putting the Macroeconomic Regulation and Control [tiao kong 6148 2235] System on a Sound Basis

To achieve this target, on the basis of Guangdong's realities and in a direction favorable to effecting a change in the economic mechanism, we must vigorously conduct experiments in the aspect of building all production factor markets (financial market, real estate market, labor service market, commodity market, and information market)—a market system that the state can regulate, with the focus on financial reform and reform of the labor and capital management structure. At the same time, we must continuously carry out reform of the housing system and reform of the social security system. In the aspect of rural economic reform, we must further perfect the double-deck management structure, thus guaranteeing that household management is regarded as the main aspect and gradually strengthening the collective role.

### Continuing To Develop Township and Town Enterprises

It brooks no neglect that the township and town enterprises of Guangdong are an important force in the national economy as a whole, especially in the rural economy. The township and town enterprises of Guangdong differ from those in the interior and basically do not vie with large enterprises for raw materials and the market. They implement the principle of putting both ends of the production process [the supply of raw materials and the marketing of products—FBIS] on the world market and regard the export-oriented economy as main aspect and their technological standards are also relatively high. The individual economy and a right amount of the private economy must also be continuously developed. The individual economy has also played a supplementary part in Guangdong in the aspects of production, circulation, and service. Of course, we must strengthen guidance and management so as to make the individual economy meet the requirements of the state industrial policy and to promote the development of the productive forces. We must restrict the passive role of the individual economy.



## FINANCE, BANKING

## Thoughts On Savings by Citizens

90OH0176A Tianjin TIANJIN SHIDA XUEBAO  
[JOURNAL OF TIANJIN NORMAL UNIVERSITY] in  
Chinese No 5, 20 Oct 89 pp 1-5

[Article by Huang Yelin (7806 0673 2651): "Thoughts On Savings by Citizens"]

[Text] Following changes in the distribution of national income in recent years, the savings of Chinese citizens have fluctuated irregularly, rising sharply in successive years and falling just as sharply in others. This phenomenon has caused widespread concern in the economic community. It is generally thought that given the inflationary economic climate, the ups and downs in savings are the result of public expectations of prices. Accordingly financial institutions have been raising interest rates on savings deposits as a means of stabilizing such deposits. Yet a review of the savings fluctuations and economic developments in recent years suggests that rising commodity prices are merely the symptom of a highly volatile savings rate; there are deeper institutional and other factors behind the volatility. Thus a careful analysis of savings in China right now is a prerequisite for any effort to formulate a proper savings policy and make the most of savings.

## 1. The Present State and Reasons of Savings Fluctuations

Savings balance refers to the volume of savings, while savings flow refers to the increase or incidence of savings in a specified period of time. A review of the changes in the savings balance and savings flow in China during the decade from 1978 to 1988 shows that both have fluctuated irregularly. While savings balance increased 33.5 percent annually on the average, it rose 29 percent and 23.5 percent in 1982 and 1988, respectively, both significantly lower than the rate for the preceding year as well as the average growth rate. The savings flow increased 28 percent annually on the average but shot up a high 143 percent in 1979 and edged up a mere 4.8 percent in 1981. In 1988, in fact, its growth rate was a negative 13.7 percent.

Needless to say, irregular movements in savings, particularly large fluctuations, are directly related to the inflation in the Chinese economy in recent years. In our opinion, however, price increases are nothing more than

a superficial factor that triggers savings fluctuations. In the real complicated economic world, other more intricate factors are at work to cause savings to fluctuate.

Table 1

| Indicators | unit:                       |                          |
|------------|-----------------------------|--------------------------|
|            | Increase in Savings Balance | Increase In Savings Flow |
| Year       |                             |                          |
| 1978       | 16.0                        | 28.9                     |
| 1979       | 33.4                        | 142.8                    |
| 1980       | 42.2                        | 68.3                     |
| 1981       | 31.1                        | 4.8                      |
| 1982       | 29.0                        | 22.1                     |
| 1983       | 32.1                        | 43.1                     |
| 1984       | 35.8                        | 47.3                     |
| 1985       | 33.6                        | 26.6                     |
| 1986       | 37.9                        | 50.8                     |
| 1987       | 64.3                        | 36.2                     |
| 1988       | 23.5                        | -13.7                    |

Source: "Financial Yearbook of China," 1988

1) Extraordinary growth in the monetary incomes of citizens. A remarkable increase in the monetary incomes of the nation's population is the principal factor behind the sizeable expansion in savings. Generally speaking, when the incomes of a population are still very low in absolute terms, the ratio between income growth and consumption growth should remain fairly steady. However, in China over the past few years, income growth has been out of proportion to consumption growth. That is, incomes have risen much faster than the level of consumption.

In our opinion, the primary reason behind this phenomenon is that citizens' monetary incomes in recent years have risen so spectacularly that their increase rate has become increasingly removed from the growth rates of the national income, the gross value of agricultural and industrial output, and revenues, and has become more and more independent. This suggests that even as the citizens' monetary incomes go up, the supply of consumer goods has not kept pace with it. The result is twofold: a substantial increase in surplus purchasing power (savings deposits plus cash in hand) and a steady rise in the prices of consumer goods.

Table 2

| Indicators                 | Unit: % |      |      |      |      |      |      |      |
|----------------------------|---------|------|------|------|------|------|------|------|
|                            | 1979    | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 |
| Year                       |         |      |      |      |      |      |      |      |
| national income            | 11.3    | 10.1 | 6.8  | 8.1  | 11   | 19.5 | 24.4 | 12.3 |
| gross output value         | 13.2    | 10.9 | 7.1  | 9.4  | 11.1 | 17.6 | 23.1 | 14.0 |
| revenues                   | -1.6    | -1.6 | 0.4  | 3.2  | 11.1 | 20.2 | 24.3 | 12.1 |
| per capita monetary income | 17.8    | 20.3 | 8.2  | 8.0  | 12.6 | 25.3 | 28.9 | 18.9 |

Table 2 (Continued)

| Indicators               |      |      |      |      |      |      |      | Unit: % |
|--------------------------|------|------|------|------|------|------|------|---------|
| consumption level        | 13.6 | 15.0 | 9.8  | 7.1  | 8.1  | 13.7 | 23.3 | 11.1    |
| surplus purchasing power | 21.7 | 35.1 | 24.0 | 20.0 | 23.0 | 36.1 | 34.7 | 31.1    |

Source: "China Statistical Yearbook," "China Financial Yearbook," 1988

2) Sudden changes in the demand structure. In the wake of economic structural reform and the introduction of the open policy in recent years, the consumption patterns of developed nations have unavoidably had an impact on China. At the same time, changes in the distribution and distribution relations of national income within China have significantly pushed up the incomes of individual households in industry and commerce and units with dealings with foreigners. As their incomes went up, the consumption demand of these households and units has also changed. Influenced by the consumption patterns mentioned above, the general population has also changed its demand structure abruptly and radically. At a time when other kinds of consumption needs have yet to be met, large numbers of people concentrate their consumption excessively on durable consumer goods. Such goods, particularly domestic electric appliances, have become the most popular commodities on China's market hotly pursued by every household. According to surveys, the prevalence of durable consumer goods such as television sets, tape recorders, and electric fans in China's urban households in 1985 had reached that of Japan when its per capita income was \$1,600. In China the pursuit of these consumer goods is subject to at least two restraints. First, income level. Since the income level of vast numbers of Chinese citizens remains very low absolutely speaking, it takes a considerable period of time to save enough money to purchase durable consumer goods. Second, production capacity. Durable consumer goods industries, dominated by the domestic appliance industries, are closely related to many other sectors. China's current production structure and production technology cannot yet satisfy consumer demand. Both factors work to increase citizen savings. Thus we can argue that the increase in savings in China does not suggest a reduction in consumer demand, but signifies to a certain extent an explosion in consumer demand. According to a survey by some savings banks of the Industrial and Commercial Bank of China on 4,000 depositors, 19 percent whose savings account for 15 percent of total savings deposits, saved in order to purchase durable consumer goods. Of these, 18 percent and 13 percent, respectively, wanted to purchase TV sets, refrigerators, and washing machines. Clearly, the savings of these depositors were unstable. For one thing, once their savings reached a certain amount and as soon as the commodities desired became available on the market, the savings would be converted into consumption. Second, they were highly vulnerable to price movements. When prices soared and market supply tightened, the consumer would look for suitable substitute commodities and convert their savings into

consumption ahead of time. The advance withdrawal rate of fixed deposits reached a high 50 percent in some areas last year.

3) The impact of the existing system on incomes and consumption. As reform intensified in China, the old and new systems have come to coexist. Because of the irrationality of the microeconomic base of this dual system, it has a negative effect on income and consumption. On the one hand, the system is quite ineffective when it comes to checking the income growth of enterprise workers. In their pursuit of the appropriate level of profits, enterprises often maximize worker welfare. On the other hand, the practice of "eating from the big rice pot," characteristic of the old system, has not been eradicated. The state provides citizens with a large amount of noncash welfare—medical services, housing, and education. Moreover, by making arrangements for a citizen's employment and retirement, the state encourages risk-free expectations among the population, facilitating biased consumer choices.

These three factors, which are interrelated, distort the savings motives of the public and render savings highly vulnerable to the external environment (price increases, political turmoil).

Table 3.  
Comparing the Reasons Why People Save  
In China, Japan, and the United States

| Indicators                      |       |       | Unit: % |
|---------------------------------|-------|-------|---------|
| Country                         | China | Japan | U.S.    |
| In case of accidents            | 32.5  | 78.5  | 51      |
| Illness, old age                | 1.6   | 42.1  | 30      |
| Buy land, houses                | 9.9   | 27.1  | 8       |
| Buy durable consumer goods      | 19.2  | 7.9   | 6       |
| Travel                          | 0.3   | 9.9   | 10      |
| education, marriage of children | 10.4  | 52.7  | 15      |
| no motive                       | 4.3   | 25.8  | 11      |

Source: Industrial Bank of Japan, 1985, No. 2; Survey by the Industrial and Commercial Bank of China on 4,000 depositors in late 1988

## 2. Comments on the Function of Savings in China

In theory, the social function of savings is to channel resources into production which otherwise would have gone into consumption. In nations around the world, citizens' savings have generally played a positive role in

stimulating economic growth. They are particularly important in a socialist economy of scarcity. In China's real economic environment, however, even as we fully appreciate what savings can do to promote economic growth and make the most of them, we should, both in theory and practice, avoid the extreme of exaggerating the usefulness of savings by arguing that in the present inflationary economic climate and under the current belt-tightening policy, citizen savings are the most effective way to close the gap between the supply and demand of funds and bring down prices. This viewpoint, which apparently dominates our savings work, both theoretical and practical, needs to be clarified.

As we see it, given the present economic climate, there are constraints on how effectively savings can fulfill its role. In fact, savings have been distorted. It would be unrealistic to expect too much from savings. Any policy based on excessively high expectations would also be unrealistic. To expect too much might even be counter-productive.

Instead of stabilizing commodity prices, private savings might induce price increases up to a point. In theory, an increase in savings necessarily lowers interest rates even as it decreases the demand for consumer goods. With savings being transformed into investment, production units can lower their costs, which makes it possible, in theory, for savings to be absorbed by new investment. But the actual situation in China, however, is quite different. A rise in savings does not mean shrinking consumer demand but, on the contrary, signifies an explosion in consumer demand. With consumer-demand-led market mechanisms basically in place, consumer demand exerts a tremendous pressure on investment. Yet savings fall far short of satisfying the funding requirements of investment. This, in turn, pushes up interest rates continuously, which causes the production costs of enterprises to climb and, ultimately, drives up consumer retail prices.

—Because of imbalances in the economic structure, savings cannot produce effective supply after they are converted into investment. In theory, whether or not savings become effective supply after they are absorbed as investment is a key indicator of the effectiveness with which they fulfill their social function. Practice demonstrates that in China the ability of savings to fulfill their role is often the function of a balanced economic structure. For instance, the national economic structure gradually achieved a basic balance in the early 1980's following adjustment. Between 1980 and 1983, miscellaneous loans to state-owned production enterprises grew 10.8 percent annually on the average while their combined profits and taxes rose 3.7 percent each year. After 1984, fueled by unchecked development in the processing sector, excessively fast economic growth aggravated imbalances in the national economy by the day. Such imbalances ultimately resulted in ineffective supply caused by products of the wrong variety or so inferior in quality that they were unmarketable. Between 1984

and 1986, miscellaneous loans to state-owned production enterprises jumped 31.8 percent each year on the average, while their total profits and taxes rose a mere 7.7 percent. We think there are two major reasons for this. For now China is in a unique situation characterized by the coexistence of the old and new systems, under which it is impossible to restrain the behavior of enterprises and workers effectively. Particularly when workers' wages are pegged to the growth rate of output value, enterprises are often driven by a desire to expand output value notwithstanding the market restraints on their products. Consequently, a large amount of loans is tied up as funds for manufacturing. As a result, the rate of fund turnover falls, as do other economic indicators. Second, imbalances in the economic structure in fact have put banks in a dilemma as to whom they should make their loans to. If financial institutions concentrate what limited funds they have on the production of durable consumer goods, it will certainly go a long way toward satisfying public consumption demand now and in the foreseeable future. However, we should be sober enough to realize that even as it satisfies public consumption demand, this kind of investment exacerbates the imbalance in the industrial structure and will, in the long run, inflate the production costs of enterprises and erode their profitability. Alternatively let us say we leave aside the related questions of bank assets debt structure and concentrate bank loans on basic industries in order to implement the national industrial policy. Such a move will contribute significantly to the balanced development of the national economy, yet it will do nothing to close the widening gap between the supply and demand of consumer goods on the market. In the real world, banks encounter resistance from all quarters when they try to adjust the credit structure, so all too often they tend to opt for the former in their lending and investment policy. The resultant imbalance not only complicates macroeconomic financial regulation and control but also undermines the effectiveness with which savings fulfill their function.

—Any attempt to raise the savings rate blindly would neutralize the anticipated effects of the belt-tightening policy. In the wake of the implementation of the economic belt-tightening policy, savings have come to be regarded as the most effective way to relieve the fund shortage afflicting enterprises. This view is widely accepted by society and institutions have been scrambling to raise interest rates openly or otherwise to strengthen the citizens' marginal savings tendency. However, we should open our eyes to the fact that the superficial phenomenon of fund shortage among enterprises conceals institutional problems and other issues relating to structural imbalance in the economy. According to a survey on 100 production enterprises whose output value constituted 90 percent of the city's total industrial output value, they needed an additional 830 million yuan in loans since the government acted to tighten credit last year. Of this sum, justifiable and policy-related fund requirements constituted just



20 percent and 19 percent, respectively, while unjustifiable fund requirements that did not comply with the credit policy amounted to 60 percent. It can thus be seen that we must analyze the fund requirements of enterprises in an objective detailed manner. As for raising interest rates on savings deposits in order to strengthen the marginal savings tendency, it will hurt the have some negative effects on the economy and may even to a certain extent offset the desired results of the belt-tightening policy intended to trim aggregate demand and control price increases. First, the banks. Since they still lack sound mechanisms to enable them to make loans in a selective way, they frequently lend as ordered. As for enterprises, their asset relationships have not been sorted out and the ownership of assets is divorced from the benefits of assets. Consequently, it is impossible to check their short-sighted behavior. The sources of credit funds may increase as interest rates on savings are raised, but because of these two conditions, the additional credit funds will still end up being spent to satisfy enterprises' unjustified fund needs. Enterprises will use loans to expand the sources of consumption in order to keep their revenues rising. Second, prices will go up. If interest rates on savings and interest rates on loans are raised at the same time, an increasing amount of the working funds and fixed funds of enterprises will inevitably go to pay interest. Practice proves that as long as the nation's current financial system remains, under which interest is incorporated into costs, increases in interest rates will ultimately be passed onto consumers in the form of higher prices. Alternatively we may hold interest rates on loans steady even as we increase interest rates on savings deposits or increase them by a smaller margin than the latter. This policy would not increase enterprise costs. However, it will inflate the fund costs of financial institutions and lower their profits, perhaps even leading to a drop in revenues and causing them to lose money.

### 3. Some Conclusions

In view of the above analysis, we can say that whether or not savings can fulfill their normal social function depends on the extent to which reform is intensified and the economic environment is improved. To expect too much from savings is to lose contact with the current state of China's economy and may even have a negative economic impact. That tendency should be corrected.

1) End the current practice among banks of absorbing citizens' savings thoughtlessly regardless of fund costs. This is what is actually happening. Enterprises need funds to invest and expand. To satisfy enterprises' thirst for funds, all financial institutions these days engage in a scramble for savings, which takes various forms, notably the following two. One, raising interest rates on savings deposits openly and otherwise. Two, increasing the number of savings outlets blindly. These are the main reasons why financial institutions are currently suffering from declining profits and rising fund costs and even

losing money. Thus we believe the departments concerned should formulate practical measures to correct the existing phenomenon in which financial institutions compete for savings by raising fund costs at a time when a belt-tightening policy is in effect.

2) Savings encourage misguided consumer behavior. This must be stopped. Misguided consumer choices and over-concentration of consumption on durable consumer goods weaken the restraining effects of production on consumption and nullify the stimulating effects of consumption on production. The excessive increase in savings by the Chinese people is a reflection of this. Moreover, the save-and-win-a-prize trend (in return for depositing a certain sum of money in a bank, the depositor is rewarded with a certificate that enables him to purchase a durable consumer item), which is so popular these days, clearly only adds fuel to the fire of misguided consumer behavior. It is therefore proposed that the departments concerned bar this particular form of savings so that savings can do a better job steering consumption.

3) We should firmly establish the guiding idea that the top priority of financial work is credit structural adjustment. We used to have such high expectations of savings that for years we made increasing savings the top priority of the work of financial institutions. However, this guiding idea was flawed in theory and in practice. On the one hand, the adjustment of the economic structure (including credit system) is a precondition that must be met before savings can fulfill their function and is a basic way to ease the fund shortage. On the other hand, practice proves that soaring savings deposits at financial institutions at all levels only serve to conceal structural imbalances in their assets and liabilities management. In the long haul, this phenomenon may prove highly dangerous to the development of the economy. Thus we should correct the error in the guiding idea of financial work without delay by making credit structural adjustment the top priority of financial work.

4) Intensify housing reform and promote the business of real estate financing. In recent years residential housing reforms and the development of the real estate financing business have had a positive effect on both savings and consumption. A sample survey on some residents in Zhuhai last March shows that savings per capita rose 4.5 fold, living expenses dropped 42.9 percent, and consumption of upscale consumer goods leveled off noticeably compared to the corresponding period a year before. All this took place in the wake of housing reform and the development of real estate financing. Thus, housing reform and the development of real estate financing not only contribute to stabilizing savings and guiding consumption, but also play a constructive role in correcting the bias in the consumption structure and narrowing the gap between market supply and demand. It is an effective way to improve the economic environment and make savings a guide of consumption.

**Hainan's Financial Review, Prospects**

90OH0292A Beijing JINRONG SHIBAO in Chinese  
11 Jan 90 p 2

[Article by Han Haijing (7281 3189 0079) and Wen Xianping (3306 0341 6097): "The Review and Prospect of Hainan's Financial Situation"]

[Text] Facing the situation occurred after the "double-tight" policy in the past year or so since its founding, a serious difficulty Hainan Province encountered in economic construction is the fund shortage and the prominent disparity between the demand and supply. In order to solve this problem, we have conscientiously implemented, in light of Hainan's situation, the principles of improving the economic environment and rectifying the economic order, deepening the reform, controlling the money supply, and stabilizing the finances, which were set forth by the CPC Central Committee and the State Council, and the currency and credit policy of "controlling the overall amount, readjusting the structure, guaranteeing key projects, reducing general projects, and regulating in a timely manner," which was formulated by the headquarters. We have regarded fund raising and the effective and invigorated use of funds our banks' central task and paid special attention to the structural, reserve, and horizontal regulation of funds our banks' central task to seek funds from time, speed, and efficiency and to try vigorously to increase the availability of funds. We have achieved fairly good results in this regard. Statistics show that as of October 1989, the balance of all deposits in Hainan's banks was 568 million yuan higher than that at the end of 1988, a 10.1 percent increase; the balance of all loans was 529 million yuan higher, a 6.1 percent increase; the accumulative amount of loan issuance was 4.285 billion yuan; and the accumulative amount of loan recovery was 3.956 billion yuan. Compared with the corresponding period of 1988, the amount of loans increased in 1989 was much lower but the amount of loans generated maintained a fairly high level. In 1989, the amount of loans generated was 7.1-fold of the amount of loans increased whereas in 1988 the former was only 1.4-fold of the latter.

Finance is an important lever and the "first motive power" of economic development. As of October 1989, the gross value of Hainan's industrial output was 1.83 billion yuan, an increase of 9.5 percent over the corresponding period of 1988; after agricultural production was attacked by four consecutive violent typhoons, total grain output was still expected to show a 24 percent increase and set a new record since the Third Plenary Session of the 13th CPC Central Committee; foreign trade and exports earned 246 million yuan in foreign exchange, an increase of 16.9 percent; and fixed-asset investment was 1.19 billion yuan, an increase of 63.6 percent. Power, communications, and transportation infrastructure construction is being carried out with good results.

The review of past year's practice shows that we have worked in the following areas:

*1. Combining scale and structural regulation with the emphasis on the latter.*

In accordance with the "Decision of the State Council on the Main Points of Current Industrial Policy" and in light of Hainan's actual condition, we formulated the "Current Policy of Hainan Province on Readjusting Credit Structure" and correctly handled the relations between the ratios of various loans.

In regard to fixed-asset loans, we correctly handled the relations between supporting infrastructure construction and developing the processing industry. We emphatically supported power, communications, and other infrastructure construction projects to quickly improve investment environment while supporting large- and medium-sized key projects, which played a crucial role in Hainan's economic development, and the technological transformation projects of old enterprises, which required little investment and yielded quick results and great economic returns. We also restricted and cut down on the number of projects of the processing industry which were duplicates, which lacked raw materials, whose technology was backward, or whose products were not readily marketable. After the vigorous support we gave to infrastructure construction in 1988, we set aside another 100 million yuan or so in 1989 to provide continuous support for the construction of the 50,000-kwh No. 2 generating unit in the Macun Thermopower Station, the Macun-Haikou power transmission and transformation line, and the first phase of the Daguangba Hydropower Station. At the same time, we also issued loans to support the construction of such key projects as Haikou's 25,000 program-controlled telephones, Haikou ground water diversion, and the Hainan automobile manufacturing plant, thus further improving investment environment and raising Hainan's power supply to the nation's second highest.

In regard to working capital loans, we gave priority to supporting the processing and production of farm and sideline products and the production of daily necessities, supported the procurement of such farm and sideline products as grain, edible oil, and sugar canes and export goods as well as the transfer of such major goods as coal, oil, and steel products. We restricted and reduced loans to production enterprises whose products had low quality, were unmarketable and overstocked, and yielded low returns. We restricted loans for companies in the circulating field, real estate companies, and the import of machinery and electronic products. In early 1989 we increased agricultural input to meet the needs of agricultural development in Hainan. During the spring plowing season, Hainan's banks provided 70 million yuan to support the departments concerned in organizing the procurement of 127,000 tons of chemical fertilizer and pesticide, thus giving an impetus to the production of spring plowing and bringing about the bumper harvest of early rice.

Supporting the good and restricting the bad in the utilization of funds has accelerated the rational readjustment of credit structure. Statistics show that as of October 1989, the proportions of loans issued to support key industrial production enterprises and the procurement of farm and sideline products increased respectively by 14.4 and 59 percent in the total loan balance as compared to the corresponding period of 1988. Foreign trade loans still maintained the same high growth rate as in 1988 and the balance of foreign trade loans increased by 15.6 percent as compared to the end of 1988. The proportions of commercial and other loans which were restricted and reduced mainly for companies in the circulating field declined respectively by 17.7 and 56.1 percent as compared to the corresponding period of 1988.

*2. Combining increase and reserve regulation with the emphasis on the latter.*

Increase regulation is focused on the distribution of funds and the improvement of the direction of capital input. Reserve regulation is focused on invigorating funds and the flexible use of funds. We have clearly noticed that under the influence of the overall climate of national retrenchment, the central bank and the headquarters cannot possibly give Hainan much money and the flow of inland funds to Hainan will also be restricted. Because of this, in order to solve this year's problem of fund shortage, we must concentrate our energies on invigorating reserve funds. We also think that comparing the reserve with the increase of funds, the former has greater potential in regulation. To get a clear picture of Hainan's capital reserve situation and problems, we have investigated and examined the overstocking situation of imported machinery and electronic products, loans occupied by grain enterprises whose deficits are policy-related, outstanding loan situation, banks withholding bank notes to retain funds, and the misuse of funds by grain enterprises throughout the province. By doing so we gained a basic understanding of the amount of reserve funds occupied and the structure, distribution, and cause of such occupation. We also clarified the scale, direction, and focal point of reserve fund regulation.

On the basis of enhancing understanding and clarifying the situation, we carried out reserve regulation in the following areas: First, we vigorously collected outstanding loans. In early 1989, we submitted a report to the leaders of the provincial government on the opinions of vigorously collecting outstanding loans and invigorating funds, which attracted great attention and support. The provincial government also sent notices to various city and county governments to make arrangements for loan collection. Many city and county leaders personally attended to this matter, meted out plans, organized forces, divided up the work and assigned a part to each individual or group, and promoted the work in all areas with experience gained in selected units. Soon the loan collection work gathered momentum and stirred up an upsurge across the province, completely reversing the past situation in which loan collection was carried

out "solely" by banks. As of October 1989, Hainan collected a total of 1.41 billion yuan in outstanding loans, which played an important role in alleviating the shortage of funds. Second, we conscientiously solved the problem of occupation by financial departments and had financial departments at all levels allocate over 73 million yuan for grain departments. Third, we helped enterprises handle the problems of overstocked commodities and arrears. As of October 1989, the amount of funds occupied as a result of overstocked machinery and electronic products was reduced by 210 million yuan. The provincial people's bank took out 54 million yuan as starting funds to help commercial, supply and marketing, and grain departments. As a result, over 80 million yuan of defaulted loans were cleared up in enterprises at the central, provincial, and county levels. Fourth, we conscientiously investigated and handled the problem of misused loans. An investigation showed that the amount of loans misused by grain enterprises in Hainan Province accounted for 16.7 percent of the total amount of working capital loans issued by the industrial and agricultural banks to grain enterprises. Through adopting a series of measures, grain enterprises have started to rectify and reform and returned part of their loans. Fifth, we overcame the phenomenon of withholding bank notes to retain funds. After several months of work, we rectified the order of account settlement, improved the work of calculating funds, overcame the phenomenon of banks withholding bank notes to retain customers' funds, and facilitated the local business of regular bank note exchange. Comparing February and October, cash substitution rate increased from 78 to 97 percent.

*3. Combining vertical and horizontal regulation with the emphasis on the latter.*

China's current credit fund management system is a system based on vertical regulation. Vertical regulation is primarily regulation carried out by responsible banks from higher to lower levels—namely the distribution and transfer of funds; horizontal regulation is interbank lending and borrowing between financial organizations. We think that vertical regulation alone is not enough and that vertical and horizontal regulations should be combined with the emphasis on the latter. Since money supply is tightened this year and the amount of increase in credit funds will be limited, the scale of vertical regulation will be directly restricted (of course horizontal regulation will also be affected). Therefore, strengthening horizontal regulation will help arouse the enthusiasm of banks at all levels for raising funds and seeking balance on their own, thus making full use of temporal, regional, and occupational differences to invigorate funds and increase the utilization rate and efficiency of funds. We have adopted some measures in the following areas:

—Vigorously but safely carrying out the work of monetary circulation. After conscientiously reviewing and summing up the work of monetary circulation in the previous period, we gained the following experiences

and lessons: 1) We should adhere to the principle of raising more funds for Hainan's economic development, not considering profitmaking our goal, and guaranteeing that the direction of monetary circulation is correct. 2) We should insist that financial organizations carry out interbank lending and borrowing activity among themselves but refrain from doing so to enterprises, contractors, and grassroots credit cooperatives in rural areas in order to ensure the safety of funds. 3) We should insist that interbank lendings and borrowings are used to meet short-term working capital needs, not to support fixed-asset investment, to ensure the liquidity of funds. 4) We should start one-day interbank loan service to meet the capital needs of specialized banks in account settlement to safeguard the steadiness of bank reputation. Through summing up our experiences, we have enhanced our understanding, clarified our direction, and brought about sound development in the monetary circulation work in our province. In the first 10 months of 1989, a total of 1.34 billion yuan of interbank loans were issued, of which 370 million yuan was borrowed from banks in other provinces by specialized banks to support foreign trade and exports, the purchase of rubber and sugar canes, the transfer of steel products and coal, and the organization of the means of agricultural production.

—Vigorously expanding foreign exchange regulating business. After two years of effort, Hainan Province has established an initial form of primitive foreign exchange regulating market. In 1988, we regulated a total of \$160 million foreign exchange, accounting for 61 percent of total annual foreign exchange retention. In 1989, the business was even better. As of October 1989, we already regulated over \$200 million foreign exchange, rising to one of the provinces regulating a higher amount of foreign exchange in China. As a result, we have resolved fairly well the previous problem concerning "enterprises and units which earned foreign exchange but did not use it and others which used it but did not earn it," made up part of the gap in the provincial foreign exchange budget, and supported the major foreign exchange needs of foreign trade, production, and infrastructure construction. We have also regulated the amount of funds reserved in foreign exchange and renminbi and alleviated the renminbi shortage in our province. As of today, we have regulated a total of \$25 million foreign exchange to be distributed to other provinces, amounting to 150 million yuan renminbi.

—Developing diversified financial organs to absorb capital. Since the founding of our province, enterprises which absorbed foreign investment or cooperated with other enterprises at home have boomed. As of September 1989, our province approved 762 foreign-funded enterprises and over 4,200 enterprises with inland investment. This objectively required the development of the banking industry to commensurate. In the past two years, banks and enterprise

groups inside and outside Hainan Province requested one after another to establish financial organizations in Hainan Province. On more than 20 occasions we have received representatives of financial circles and enterprises at least 10 countries and areas including the United States, the United Kingdom, France, Japan, Thailand, Hong, and Taiwan. Also, on more than 30 occasions we have also received representatives of banks and enterprises from over 10 provinces and municipalities including Beijing, Sichuan, Yunnan, Zhejiang, Heilongjiang, and Shenzhen. We have introduced to them Hainan's economic and financial situations and negotiated on the establishment of financial organizations. Newly established financial organizations, which were examined and approved by us and submitted to the headquarters to be approved, have brought in a total of 350 million yuan as the capital of domestic and foreign banking enterprises and HK\$103.5 million. This has played a definite role in increasing the source of Hainan capital and alleviating the current problem of disparity between the supply and demand of funds.

## MINERAL RESOURCES

### Gold Smuggling Presenting Serious Problems

90OH0174A Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 11, 10 Nov 89 pp 63-65

[Article by Da Qi (1129 0366): "Shocking Mainland Gold Smuggling"]

[Text]

**There is gold everywhere in the Altai region in Xinjiang but the gold purchased by the government is only one-fifth of all the gold panned, most of the gold ends up in the hands of gold smugglers.**

In Jingdezhen, the placer gold producing region of Jiangxi, civilian-found gold amounted to over 5,000 ounces, but only four ounces was taken in by the state.

Ninety percent of the gold produced in Guangdong Province was smuggled, hidden or privately turned into jewelry and entered the black market...

**Gold Found on the Chest of a Young Woman** On the mainland there are many secret gold roads by which smugglers risk danger to smuggle great quantities of gold out of the country.

Without exception, the gold-selling routes are from the northwest, northeast and north China to the coast, especially Fujian and Guangdong. The smuggling methods used by gold-dealers now go to any extremes: One day at the border inspection station at Baiyun Airport in Guangzhou, flight 301 from Guangzhou to Hong Kong was about to take off. When a young woman carrying a Thai passport went through the security gate the alarm sounded. Little Chen, a female inspector of the international inspection department, immediately picked up a detector and checked her body and when



checking her chest the detector gave off a signal. "What's in there?" "It's...it's a brassiere!" the young woman said with an embarrassed expression. How could there be gold articles on her brassiere? Little Chen then took the woman to another room and had her take off her clothing for inspection and as a result found a piece of gold and a small package of rings in her brassiere.

Another day at 10 am at Baiyun Airport, another airplane was about to take off for Hong Kong. At the time a young man supporting an elderly woman walked towards exit inspection and the young man pressed the inspector, "The plane will take off soon, hurry the inspection, miss." The inspector asked the old woman with him, "May I ask, are you taking anything gold with you?" "No, nothing at all!" the young man interrupted impatiently. That was strange. He had asked the old lady, but it was the young man who answered. The inspector was on the alert at once and as a result found six gold bars weighing 100 grams wrapped in cotton at the elderly woman's waist.

For the gold-dealers the vast coastline is an important secret path for them to smuggle gold. In the past three years, over 100 catties of pure gold and over 200,000 shiny silver yuan have passed through the hands of smugglers in Huilai Xian, Guangdong. Once a smuggling boat named "Yudaqian" was seized. The captain stayed in bed claiming he was sick but the police responsible for investigating smuggling went on board and found 32 ounces of gold in this pants. Gold dealers have their ways of smuggling but all have been spotted by "steely eyes" though naturally this does not exclude some gold-dealers who have "slipped through the net."

Those in the know in Jinshan have revealed that gold smugglers ride their motorcycles through the dark mountains at night with a sack of renminbi tied to the back. They buy high-priced gold from the cyaniders and slip out before dawn. After this the smuggler's tracks are even more mysterious and most are linked up outside the country. They either take the risk of crossing the border on foot or get in by hiding in loaded boxcars; some secretly travel by water in fishing boats with trap doors while even more are smuggled in fishing nets. It's no wonder that some people say, "If it weren't for smugglers the fever to dig gold would not exist."

**Ninety Percent of Guangdong's Gold Is Smuggled** Xinjiang has a long history of gold-mining and 56 of the 76 xian have gold. Gold is buried almost everywhere in Altai, which has been called the "Golden Triangle." One can pan for gold wherever there is water. If there are gold panners, then there are gold smugglers. Every day smugglers and other lawless persons slip into gold mining areas and, opening their mouths as big as black pots, lap up the country's gold. Gold smugglers illegally buy up every ounce of placer gold at a price more than double that paid by the state. The JINGJI CANKAO newspaper has revealed that in 1987 more than 20,000 people had come to the Altai region to pan for gold, and even after the reorganization of 1988 there were still over 10,000.

However, the gold bought by the government is only one-fifth of the total output of the gold panners; most of the gold ends up in the hands of gold smugglers.

News from relevant departments in Jiangxi reports that last year the masses in the province mined no less than 10,000 liang of gold but the overwhelming bulk of it entered the black market, was resold and smuggled. In Jingdezhen City, in the placer gold producing areas, the people mine over 5,000 liang of gold but last year the state received only four liang. At the same time the gold seized in the 94 cases of gold reselling and smuggling that the province investigated and broke last year amounted to more than 800 liang.

Guangdong Province, which is the southern gateway, last year began unified mining according to plans of the departments in charge of gold for all gold mines in the province which banned individual gold production activity, but due to the lack of effective management in many places, 90 percent of the gold produced by the entire province was smuggled, hidden or privately made into jewelry and traded on the black market.

According to some statistics from the public security departments, over 640,000 grams of gold and more than 27 million yuan in illicit money were seized in the total of more than 4,200 cases of gold smuggling and reselling that were solved from 1977 to the middle of 1988.

People thus can see that a secret gold road links the mainland and Hong Kong and that through this mysterious "golden flow," China's gold seems to have become an "international cycle."

**Surprisingly Enormous "Price Differential" Lost** A contrast with the underground gold market which becomes more prosperous daily is that no one has asked the exchange rate at the gold and silver exchanges in the People's Bank of China, quite simply because there is an excessively wide gap in the ratio of China's retail and purchasing prices for gold: the officially announced retail price is four times that of the purchasing price, but the actual retail price is six times higher.

On 1 October 1982, the mainland announced that it was reviving the domestic market in gold jewelry. In just six years since the market in gold jewelry was revived, the retail price for gold changed eight times, and now pure gold is up to nearly 100 yuan per gram. Yet gold for supply to jewelry-making plants has declined year by year. The blazing gold-buying fever, the fluctuating price of gold and the dried up gold channels dictate the current market in gold jewelry on the mainland.

On the Shanghai Bund where nine major jewelers such as Qiutianbao [5941 1131 1405] and Feng Xiang [7685 5046] had set themselves up as a group, in recent years 63 shops which either specialized in or also deal in gold jewelry have appeared. At the present time the owners of these shops have been greatly bothered by the annually dwindling supply of gold. Yet private sources of supply for processing have increased dramatically. A young



woman who went to a jeweler's to have jewelry made "revealed" to people that her locket was an antique dug up from a tomb in Shanxi which she had someone buy for her.

The Feng Xiang manager estimates most conservatively that the source of at least half of the gold that is delivered to jewelry makers each day is illegal. Much of the cheap jewelry which bears such stamps as "Qiutianbao" was obtained by going directly to places on the coast. A great quantity of pure gold bars which bear such stamps as that of Hong Kong's "Baosheng Bank" is now getting to Shanghai through nongovernmental markets in such places as Shenzhen.

Places such as the Shanghai Branch of the People's Bank of China have gold reception offices but since the purchase price of gold is 1,000 yuan per small ounce and the retail price is 2,678 yuan, it is quite natural that very rarely does anyone come to do buying and selling. In addition, gold buyers, keeping in mind the premise of preserving the value of the principal, would actually only buy in and not sell. Secretly and quietly however, the underground market expands daily, undoubtedly making the gold "secret road's" underground "international cycle" even more active and causing losses to state finances.

A gold jewelry distributor in Guangzhou said that because the prices of domestic goods inflated in waves last year and customs was concerned only about exports and not about imports, it created a "scramble for gold" for a while. The volume of gold jewelry purchased in Hong Kong for domestic sale in Guangzhou alone made up one-third of the total volume of sales in the entire market. Clearly, gold was smuggled across the border, and gold jewelry flows uninterrupted into the mainland and the makeup of this reverse "gold flow" has lost an enormous import-export price differential.

**Poor Management Creates a Hotbed of Smugglers** In the vastness of China an inexhaustible "treasure which can save the country"—gold—has grown. China's proven gold deposits are more abundant than those of other countries and regions. For a long time, the mainland has exercised a national monopoly of gold production and circulation.

Yet state set gold prices have departed from international gold prices for a long time and at the same time since they lack a corresponding domestic financial market, gold smuggling cannot be banned. This has led to a large outflow of and loss of mainland gold.

The source of the smuggled gold is the individual and small collective gold mines which have sprung up in the past few years. This is because technology is backward, prices of raw materials have risen and the cost of refining each liang of gold which the cyanidizers, who are responsible for final refining of gold ore into gold, charge averages 2,909 yuan, but calculated at the state gold purchase price of 1,000 yuan per liang, they will lose

1,909 yuan on each liang, thus the ideal way out for the gold dug from these gold mountains is smuggling.

What provides a "breeding ground" for gold smugglers is the weakness of the mainland's gold production management work. In some places government officials understand gold mining one-sidedly as a means for leading to the peasants escaping poverty and becoming well-off but propagandizing the state laws on mineral resources and the regulations on gold production management is not enough and cannot effectively attack of stop smuggling, concealing or privately making it into jewelry and selling it in the black market. Some local governments break state regulations when purchasing gold, raising processing fees at each level. Local banks do not have the capacity to assay and accept gold and cannot take the initiative to go to gold-producing areas to buy gold, which also has an impact on exchange of gold between mining and agriculture. At the same time, the gold production materials supply channels are not completely open and cannot guarantee prompt supply thus miners can only look to higher prices of materials for help which causes gold production costs to skyrocket. For example, sodium cyanide has risen from 7,000 yuan per ton to over 15,000 yuan per ton. As prices increase, the gold miner naturally thinks of everything he can to sell his gold ore and lumps of gold to the dealer to obtain a price much higher than selling it to the state bank. And in such areas as quality and stylishness domestically-made jewelry is inferior to the tide abroad and this also is an important reason why domestic consumers vie for foreign jewelry.

**Other Abuses Caused by Gold Loss** A short time ago during an interview, I discovered that since a substantial part of the gold purchased is paid for in foreign currency, although part is paid for in renminbi, this renminbi must be converted into foreign exchange to pay Hong Kong the expenses for gold which was imported by various channels thus causing the actual ratio of renminbi to drop. On the other hand, since the actual price of gold in the interior, the cost of making gold jewelry and the broker's commission all clearly tend to be high, it is difficult for the domestic gold jewelry business to be matched with Central Street jewelers in Hong Kong. And in the interior gold jewelry business, due to the fact that prices are much higher than Hong Kong and international prices, and in manufacture and sales the major part of the profits is taken by middlemen, domestic government and enterprises profit very little. In addition, domestic gold supply does not meet the demand and markets are separated, so that gold prices in various places differ and the gold market is in confusion and reselling is rampant. Hong Kong's financial world has divulged that the "gold fever" in the interior has increased Hong Kong's demand for gold. The volume of gold imported last year was 11.5 times greater than in 1987 and exceeded the record of 300 tons of gold imported by Hong Kong in 1949 which upset the normal operation of the Hong Kong market.

Some gold exchange centers with world influence have taken shape and some specialists have expressed the view that seen in terms of the international environment, the mainland should lift restrictions on the gold market. With the strengthening of the dollar, the improvement of the U.S. economy, the easing of inflation in the West, the slide in international oil prices and the accelerating decline of gold prices, this is undoubtedly the optimum international environment for China to lift restrictions on the gold market. If they would adjust the purchase price of gold and at the same time establish a gold market in which gold can be bought and sold and which has links with the world gold market, it may protect domestic gold production and prevent the loss of gold.

## FOREIGN TRADE, INVESTMENT

### Hubei Annual Foreign Trade Report for 1989

90OH0308B Wuhan HUBEI RIBAO in Chinese  
3 Jan 90 p 1

[By Reporters Xiao Yao (5135 2565) and Yang Jingwen (2799 2417 2429)]

[Text] In opening up to the outside, 1989 was a year of extraordinary success for Hubei. "Three kinds" [that is, three kinds of partially or wholly foreign-owned] of enterprises were set up, loans from foreign governments were utilized, "three supplies and one compensation" agreements were concluded [that is, materials are supplied by foreign clients for processing, parts are supplied by foreign clients for assembly, samples are supplied by foreign clients for copying, and compensation trade is instituted], and technology was introduced. This gave impetus to sustained, stable, and harmonious development, thus laying a good foundation for opening the doors of Hubei to the world.

In the past year Hubei has approved 70 foreign-owned enterprises, bringing the total number of the "three kinds" of enterprises set up in the province to 194. There are now foreign partners from some 12 countries and regions, including the United States, West Germany, Japan, France, Holland, and Australia, who are involved in more than 10 fields, including machinery, electronics, textiles, light industry, construction, farming, and stockbreeding. Now, except western Hubei autonomous prefectures, Jingmen City, Shennongjia Forest district, all the other localities and cities have set up foreign-owned enterprises. Most of the "three kinds" of enterprises have been set up in the Wuhan area. At the end of 1989 there more than 100, giving the area the most in the province.

In 1989 Hubei concluded eight agreements with foreign governments for loans and approved 73 "three supplies and one compensation" agreements. The money involved in the foreign loans came to \$71.60 million. And by the time the latter agreements expire, \$6.8 million in conversion fees could be charged. Nearly \$2 million have already been received.

The effect of this year's turmoil for a time caused some major difficulties in Hubei's opening to the outside. Party committees and government at all levels throughout the province have been resolutely and unswervingly carrying out the policy of opening to the outside and have as a result increased confidence that foreign investment will come to Hubei. Even during the time of turmoil, Hubei approved 15 new "three kinds" of enterprises. Most of these enterprises that have gone into operation are in normal production. After the counterrevolutionary rebellion in Beijing was suppressed, various levels of government and relevant organizations in Hubei took strong measures to help these enterprises dispel their anxieties and understand the situation. This, in fact, improved the climate for foreign investment in enterprises, enabling the "three kinds" of enterprises to achieve relatively good economic efficiency. According to statistics from 83 enterprises now in operation, last year they realized an output value of more than 41.9 billion yuan, earned profits of 104 million yuan, and received 27 million yuan in foreign exchange, compared with the previous year an increase of 61, 46, and 11 percentage points, respectively. At present, there are five enterprises in the province earning and receiving \$1 million or more in foreign exchange. Of these, the Tianlong Company has topped \$5 million. In addition, 11 of the "three kind" of enterprises have realized annual profits of \$1 million.

### Hebei Annual Foreign Trade Report for 1989

90OH0308A Shijiazhuang HEBEI RIBAO in Chinese  
4 Jan 90 p 1

[Text] In 1989 Hebei's total foreign exchange earnings from exports came to \$1.63 billion, a 5.4 percent increase compared with 1988. Of this amount, the export of miscellaneous items earning foreign exchange accounted for \$1.252 billion, exceeding the state plan by 8.68 percent, an increase of 4.16 percent compared with 1988. Export of local products achieved the objective of the "three exceeds," that is, exceeding the plan, exceeding last year, and exceeding all previous records. New progress and new breakthroughs were also obtained in the use of foreign capital, "the introduction of technology, in contracting for engineering projects, and in labor services cooperation. The Hebei Provincial Government is now issuing a letter to cadres, workers, and staff personnel expressing its congratulations and regards.

For the past year, nearly 600 million yuan and nearly \$5 million in foreign exchange have, through various channels and means, been invested in building the production system associated with Hebei's foreign exports. These investments have built and helped sustain 225 specialized export factories (specialized workshops), foreign trade-owned [zishu 5261 1466] enterprises, integrated industrial and trade joint ventures, and production enterprises of the industrial and trade two-party type and of the foreign contractual joint venture type. This has stabilized and enhanced the quality and grade of Hebei export commodities, increased their

variety and design, optimized the export commodities structure, and speeded up the technical transformation of enterprises, thereby ensuring the stability of and increase in foreign exports.

We have concentrated our forces to build up our marketing system. Using the combined tactics of "frontal warfare" and "joint operations," we have taken the initiative to strike out on our own to develop a global trade strategy. In the past year, we have set up 21 overseas trading enterprises in 18 countries and regions in Europe, North America, Australia, and the Middle East. These serve as permanently-manned forward positions for collecting, collating, and transmitting information concerning the international market. They take advantage of every opportunity to promptly and vigorously develop economic trade activities.

Faced with shortages of materials, energy, and funds, and extremely difficult operating conditions, Hebei's economic and trade sectors, when trying to obtain support from all quarters, kept its eyes on the inside, instituted reforms, and tapped their own potential by demanding efficiency from management and funds from the resulting efficiency. The chairman of the provincial economic relations and trade commission met separately with the main responsible person from each enterprise to sign an agreement whereby the enterprise would break down the targets for each export contract by section, office, shift, and individual. To strengthen control, the larger specialized import-export companies set up commodity departments to exercise control at the company level, department level, and section level. By means of inventories, clearing up accounts, holding down stocks of goods, and curbing the irrational use of funds, we effectively alleviated the purchasing funds crisis.

We brought into play the entire function of the system. The provincial economic relations and trade commission, on the basis of investigations and studies, set up county-level economic relations and trade organs to manage county-level trade relations. This put foreign trade in an important position at the basic level and transformed the former emphasis of only focusing on the enthusiasm of provincial and municipal trade departments by focusing on the enthusiasm of other departments as well. Exports that earned foreign exchange gained a dominant position throughout the province. By further expanding the opening to the outside and through sustained and stable development, Hebei has created an excellent internal environment for economic relations and trade.

#### **Improvements Urged in Export of Electronic Products**

90OH0309B Beijing GUOJI SHANGBAO in Chinese  
6 Jan 90 p 3

[By Zheng Wenlin (6774 2429 2651)]

[Text] Development of foreign trade for China's electronics industry is now facing new challenges and opportunities. How we are to realize sustained, stable, and

harmonious growth in the export of electronics is a problem that demands a prompt solution

#### **I. The New Situation and New Problems That Have Occurred in Electronics Foreign Trade**

1. The combination of overstocked products and insufficient sources of supply have become a dominant contradiction in electronics foreign trade. The purchase of some electronic products has been limited, their stocks too large, and their sales sluggish because of inadequate funds for foreign trade enterprises. For example, the export of color television sets during the first half of 1989 by the China central electronics system was 100,000 sets less than in the same period in 1988, and in addition, the factories had overstocks of approximately 2 million sets. Some electronic products, because of current lack of production, have had disastrous drops in export volume and declines in the number of contracts completed. For example, export volume for the central electronics system the first half of 1989 declined eight percent compared with the same period in 1988 because of a lack of adequate sales.

2. Export costs have risen, and the operational efficiency of foreign trade enterprises has slipped. During the first half of 1989, export costs in terms of foreign exchange for the central electronics system throughout the country exceeded the plan by \$0.30, a rise of \$0.38 compared with the same period in 1988. At the same time, shortly thereafter the value of foreign exchange was allowed to float downward and foreign exchange to bottom out, increasing even more the overall difficulties the export enterprises were having compensating for their losses.

3. The franchising of color television sets affected the domestic and foreign currency markets. In the first half of 1989, the foreign and domestic currency market for color television sets experienced an abnormally large decline, a drop of 54 percent compared with the same period in 1988. At the same time, the 1989 sales in West Europe were heavily affected by antidumping regulations that the European Common Market instituted with respect to China's exports of color television sets to West Europe.

The situation is partly the responsibility of the enterprises themselves and partly related to the present special restrictions abroad.

(1) The export products mix and the market structure are not rational. The growth ratio between consumer category electronics and investment category electronics has been out of balance in China for a long time. The proportion of investment category electronics tends to be low and seems to be continually getting lower and gradually withering away. In the first half of 1989, the volume of investment category electronics export products for the central electronics system was only 6.1 percent of the total amount of exports. After an investment category products lag in sales, the growth in consumer category products will undoubtedly be restricted and achieving stable growth of exports will be difficult.

As for the export market, the development of total markets in North America, Western Europe, Eastern Europe, and the Soviet Union has not been ideal. There is too much reliance on domestic and foreign currency markets. This is detrimental to spreading market risk and makes it more and more difficult to meet the requirements for developing electronics foreign trade. For example, in the last few years, the biggest problem in the export of color television sets has been a source of goods. However, the present domestically weak market has not, in fact, given impetus to expanded exports of color television sets.

(2) Foreign trade enterprises not only have an inadequate number of export sales representatives, the ones they do have are somewhat lacking in ability. Thus, it would seem that our capacity to totally develop the international market is limited. For example, compared with the Soviet and Eastern Europe markets, the quality, design, and prices of China's electronics products are vastly superior. However, we lack export sales representatives who are familiar with barter trade. Whenever settling accounts through barter trade is mentioned, we have a difficult time giving an accurate reply. When the Soviets and Eastern Europeans come for talks, they frequently bring up barter trade.

(3) Some enterprises lack the ability to cope with external factors, such as the general worsening of trade conditions on the international market for manufactured products. This is because procedures rectifying circulation and price limits on electronic products pertaining to the domestic rise in prices have reduced the efficiency of these enterprises in coping with unreasonable price rise patterns. After demand has been curbed, electronic products become overstocked. This drives up costs and reduces efficiency with respect to speed.

(4) The foreign trade structure still has not been put in order. Implementation of policies in support of electro-mechanical products has not been sufficient. It has been especially true during macroeconomic retrenchment that the needed inclination toward foreign trade has been inadequate. For example, the stipulation by pertinent departments that electronics foreign trade enterprises would have zero growth in credit has caused these enterprises, to varying degrees, to suffer from inadequate funds. They have been under pressure to scrounge for grains of rice that fall from the pot. They are in the difficult position of living between the cracks.

In view of the above situation, it is this writer's view that the difficulties in developing foreign trade in electronics will increase. However, as long as we take advantage of good opportunities and take effective measures, foreign trade in electronics can achieve relatively large growth.

## **II. Rectifying Foreign Trade Procedures, Strengthening Regulating Mechanisms, and Improving the Basic Infrastructure Will Create a Good Climate For Developing Foreign Trade in Electronics.**

(1) Formulating business policies to conform to development of foreign trade in electronics and establishing a sound and efficient system of regulation and control will

channel the work of electronics exports onto the right track in an orderly and systematic manner and in the proper magnitude. First, the operational limits of the branch companies of the central electronics system should be properly delineated and a port system set up for managing large quantities of electronic goods for export. One or a small number of ports should be designated to manage the export of products to the United States and Europe where competition is stiff and operational difficulties the greatest. Second, we should institute mandatory planning for key export goods and do a good job of controlling the quantity of exports and their prices.

(2) Boldly introducing the mechanisms of competition, risk taking, profit, and accounting, further perfecting the foreign trade enterprise contract management responsibility system, changing the present weak contracting situation whereby electronics foreign trade enterprises contract for profits but not for losses will encourage enterprises to increase their ability to meet emergencies and to cope with external factors affecting export operating efficiency.

## **III. Using the International Market as a Guide to Adjusting in a Timely Fashion the Product Mix of Electronic Exports and the Export Market Structure.**

(1) To reduce the hazards of the international market and to expand export foreign exchange earnings, we must continually explore the establishment of export product mixes which are fully flexible and which can rapidly react to changes in the international market. In adjusting the export product mix, it is crucial to develop a large array of new products. During the Eighth 5-Year Plan, we must work hard to develop the production and export of investment category electronic products. By thus correcting China's present imbalance between the development of consumer category and investment category electronic products, we will be both promoting the export of consumer category products and giving impetus to the export of investment category products.

(2) Industry and trade should be used in combination to open up international markets. In adjusting the structure of the export market, we must emphasize opening up new regions of the international market. At present, the new regions are the Soviet and Eastern European markets. Market adjustment is a long-term task. We must pay close attention to market trends and step up efforts to establish three-layered sales, service, and information networks in Hong Kong, Southeast Asia, North America, Western Europe, the Soviet Union, and Eastern Europe.

## **IV. In Adjusting Our Plans for Export Development, We Must Give Priority To Efficiency and To Shifting From Extensive Development to Intensive Development.**

(1) We must change our strategic thinking with respect to the electronics export trade. In recent years, the increased losses for electronic export products and the rise in their costs in terms of foreign exchange have become more and more serious. To a certain extent these



are the danger signals of "increasing impoverishment." Therefore, we have to shift from simply trying to increase export trade volume to emphasizing obtaining real comparative advantage and change the present one-sided export situation that seeks to meet the demands for foreign exchange. We must pay particular attention to controlling excessive volumes of exports which cause precipitous price drops and select the optimum combination of export quantity and price.

(2) At present electronics export departments must pay particular attention to learning how, with their limited funds, to take advantage of products which have a ready market and which earn foreign exchange at a high rate when purchased. They must learn how, with their limited foreign exchange for imported materials, to take advantage of products which, through heavy processing, have their value greatly increased. This should enable foreign exchange earning enterprises that are plagued by severe shortages of funds, severe shortages of imported raw and semiprocessed materials, and severe shortages of energy to ensure that production does not collapse, that efficiency does not decline, and that foreign exchange earnings are increased.

#### **Prohibition Against Internal Sale of Export Wares**

90OH0296A Beijing GUOJI SHANGBAO in Chinese  
9 Jan 90 p 1

[Article: "Foreign Exchange Administration, Ministry of Foreign Economic Relations and Trade, General Administration of Customs, and Bank of China Issue Notice Prohibiting Foreign Businessmen, and Businessmen from Hong Kong and Macao From Reselling Chinese Exports For Profit Inside China"]

[Text] During the past two years, many instances have occurred in some provinces and municipalities in which Hong Kong businessmen and Chinese trade organizations stationed abroad have imported Chinese export commodities, not for shipment abroad, but in order to resell them to units inside China at a profit. In order to protect the national interest and prevent foreign businessmen, Hong Kong businessmen, and Chinese organizations stationed abroad from reaping unfair gains, the Foreign Exchange Administration, the Ministry of Foreign Economic Relations and Trade, the General Administration of Customs, and the Bank of China have prepared the following regulations:

1. All Foreign (Industrial) Trade Import-Export Companies are to strictly abide by the Ministry of Economic Relations and Foreign Trade "Regulations on the Strict Prohibition of All Jurisdictions and All Departments and Enterprises From Reselling For Profit Inside China of Chinese Export Goods Obtained Through Foreign Businessmen, Overseas Businessmen, and Hong Kong and Macao Businessmen," as well as "supplementary regulations" on the enforcement of the above regulation. Exports sold to foreign businessmen or to official Chinese organizations abroad must be shipped outside

China. Deliveries inside China are strictly prohibited. Banks will not handle payments to violators, and industrial and commercial control units as well as tax units will mete out punishments.

2. The Bank of China and specialized banks authorized to handle foreign exchange transactions, as well as constituent branch and sub-branch banks, are to conduct strict checks when handling payments or collections against export documents, and they should strictly scrutinize the port of origin and the port of destination for export goods given in bills of lading. When the consignee for Chinese exports is inside China, not only are claims for foreign exchange or payment not to be handled, but the matter should also be reported to the economic and foreign trade unit and the foreign exchange administration unit at the same level, both of which are to investigate and deal with the matter.

3. All economic and foreign trade commissions (departments, or bureaus) are to strengthen control over local foreign (industrial) trading company exports. All cases in which certain raw and processed materials urgently imported for processing into finished products for export are turned over for purchase inside China are to be handled strictly in accordance with regulations contained in "Notice on Regulations To Be Applied in Figuring the Price of Foreign Exchange in Final Settlements For Those Portions of Commodities Where a 'Substitution of Imports for Exports' Has Occurred" of 1986, and "Supplementary Notice on Regulations To Be Applied in Figuring the Price of Foreign Exchange in Final Settlements For Those Portions of Commodities Where a 'Substitution of Imports for Exports' Has Occurred" of 1988, both from the Ministry of Foreign Trade and Economic Relations, and the State Foreign Exchange Administration, and the 1989 Ministry of Foreign Trade and Economic Relations "Notice on the Printing and Distribution of Regulations on Problems in Foreign Processing Businesses."

#### **Henan's Silk Export Earnings Soar; Production Expanded**

90OH0296A Beijing GUOJI SHANGBAO in Chinese  
9 Jan 90 p 2

[Article by Wen Kuan (2429 1401) and Bai Hua (4101 2901): "Henan's Achievements in Developing Silk Exports Outstanding, Policies Correct, and Actions Appropriate"]

[Text] As of the end of December 1989, the Henan Provincial Silk Import-Export Company earned \$28 million in foreign exchange from exports in a 267 percent fulfillment of plan. This was a 187 percent fulfillment of the province's contracted quota, and a 79 percent increase over the same period in 1988. The company fulfilled the state assigned annual export quota 9 months ahead of schedule, and the province's contract quota five months ahead of schedule becoming the



champion foreign trade industry in the whole province, and attaining the highest standards since the company was founded.

The conspicuous achievements of the provincial silk export company in earning foreign exchange from exports is attributable primarily to the following:

1. Improvement of political and ideological work, strengthening enterprise cohesiveness, and fostering a spirit of struggle in making unceasing efforts toward self-improvement among staff members and workers. Under leadership of the provincial CPC committee, the provincial government and the provincial committee for economic relations and foreign trade, company, party and government leaders worked together closely, paying extremely great attention to ideological and political work during 1989. The company regularly assembled staff members and workers to study party and state plans and policies, and used various methods to indoctrinate staff members and workers in patriotism, collectivism, and socialism. They improved the political quality of staff members and workers, and devoted attention to solving problems in the daily lives of staff members and workers. This greatly enhanced the mass consciousness of staff members and workers about being masters in their own house, of making a greater contribution to the country, and of making the enterprise shine more, thereby producing within the company a fine atmosphere of unity and vitality, and hard work to get ahead.

2. Support from the local government and units concerned enabled a straightening out of supply channels to sources of export wares. In order to put into effect the relevant spirit of the State Council, the provincial government intensified centralized administration and control over the procurement and export of cocoon silk, organizing a provincial silkworm cocoon procurement leadership team including members from the provincial supervisory department, economic commission, and the price bureau. Prefecture, city, and county governments in major silkworm cocoon producing areas throughout the province also set up corresponding organizations with responsibility for guiding, managing, and coordinating silkworm cocoon procurement, rigorously cracking down on the forcing up of procurement prices and on resales for profit, insuring that silkworm cocoon procurement channels throughout the province were unimpeded, that there was good order, and that markets were stable.

3. Persistence in the deepening of reform, and perfection of the contract responsibility system. Beginning in 1989, the company's leaders first turned their attention to the foreign trade operations contract responsibility system, instituting labor optimization groups and calling for contracting within the company. It contracted various economic norms such as export quotas, cost, profit and loss, and expense norms to individual offices and individuals, level by level, everyone thereby carrying a part of the heavy responsibilities, and everyone shouldering norms, each and every staff member and worker working

hard and striving for an arousal of staff member and worker enthusiasm throughout the company.

4. Attention to quality of exports and the honoring of contracts. In recent years, some units that supply goods have slighted quality, have not honored contracts, and have not guarded their reputations for various reasons. In this company, however, the leaders regulated indoctrinated staff members and workers in establishing a firm concept of "quality first," and "reputation first," regarding as vital to the enterprise the insuring of export quality and strictly honoring contracts. They took firm hold on export quality with one hand and fulfillment of contracts with the other. The handwoven tussah silk that the company exports enjoys a reputation as the finest in international markets, and some of its silk lining materials were awarded the Venus prize for quality at the 12th European International Exhibition.

5. Better linking of industry and trade for a joint sharing of risks, and joint benefits. Production enterprises play an important role in the expansion of exports through foreign trade, so the company always regarded production enterprises as a powerful backstop to foreign trade enterprises. It also made provision of good service to production enterprises a cardinal rule, always maintaining fine relations with production enterprises, and entering into partnerships and cooperative ventures with enterprises in a joint sharing of risks and joint benefits. Foreign sale prices were revealed to industrial plants, and industrial plants were invited to send representatives to take part in discussions with foreign businessmen, and to organize joint surveys and sales promotions abroad. In addition, the company was adept at using the changing situation in international markets, adopting flexible methods of trading through many different channels and in many different ways to expand export transactions. It employed both sales promotion teams traveling abroad, and large and small trade fairs, going abroad and inviting people to China. It made deals aggressively, honored contracts religiously, and strove to expand foreign exchange earnings from exports.

6. It tapped funds potential, and devised strategies of many kinds to get through difficult situations. When the state tightened the money supply in 1989, the company faced conflicts among a serious shortage of capital, tremendous rises in prices of export commodities, and an increase in various expenses. Facing up to the difficulties, the leaders and the staff members and workers in the company devoted efforts to tapping funds potential, and adopted various measures to make rational readjustments of the funds structure. It inventoried warehouses selling off goods that had accumulated in inventory, took stock of domestic and foreign accounts owed the company, and curtailed expenses, using every possible means to raise money. It disposed of a total of 3.57 million yuan worth of goods that had accumulated in inventory, collected 2.5 million in domestic and foreign debts owing, and curtailed expenses by nearly 300,000 yuan for the whole year.

7. Energetic expansion of the growing of mulberry to raise silkworms, and more building of export commodity bases. During 1989, the company devoted extraordinary attention to the growing of mulberry for the raising of silkworms. It worked with all its might to fulfill provincial plans for an expansion of mulberry growing and the raising of silkworms. It both consolidated old silkworm growing areas, and also developed a new mulberry growing and silkworm raising area along the Huang He flats. With the energetic support of government and leaders at all levels, it surmounted its funds and other difficulties, and in the winter of 1990, the mulberry growing area along the shores of the Huang He is expected to cover more than 50,000 mu. In addition, Xinyang, Nanyang, and Shangqiu prefectures also plan to grow more than 20,000 mu of mulberry. These ventures alone can produce more than 250,000 jin of fresh silkworm cocoons and increase foreign exchange earnings by \$3 million. In 1989 alone, the company allocated more than 1,000 tons of fertilizer, and issued 4.5 million yuan in loans for use in supporting the growing of mulberry and the raising of silkworms.

### **Fujian Province Exports More Ships**

*OW2602092690 Beijing XINHUA in English  
0804 GMT 26 Feb 90*

[Text] Fuzhou, February 26 (XINHUA)—Coastal Fujian Province exported 19 fishing vessels, freighters, tug boats, and special pleasure boats to Japan, Hong Kong and Peru last year.

Three tug boats to be exported to Singapore will soon be launched.

As one of China's major coastal shipbuilding provinces, Fujian can now design and produce various types of ships over the capacity of 5,000 dwt.

"A slump in the domestic market is a good opportunity for us to rationalize the product mix and improve quality so that we can penetrate the world market," a local official said.

Meanwhile, Fujian has signed contracts with foreign businessmen for 21 more ships.

Fujian only built ships for the domestic market and for the Hong Kong region in the past.

## **ECONOMIC ZONES**

### **Shenzhen's Foreign Trade Strategy in 1990**

*90OH0323B Shenzhen SHENZHEN TEQU BAO in Chinese 10 Jan 90 p 1*

[Article by reporter Deng Jinliang (6772 6930 5328): "Readjust Foreign Trade Strategy and Explore Deep-sea Market—How To Push Shenzhen's Foreign Trade Work to a New Level in the New Year"]

[Text] In 1990, the nationwide improvement and rectification campaign and the readjustment of the foreign trade policy will inevitably affect to a certain degree Shenzhen's foreign trade work. Facing this situation, corporation managers attending the city-wide planning and financial work conference unanimously held that only by correctly handling imminent difficulty, seizing the opportune moment, turning pressure into motive power, and vigorously readjusting foreign trade strategy can they push foreign trade work to a new level.

It is understood that the foreign trade task assigned to Shenzhen this year is relatively heavy. Shenzhen needs to export a total of \$2.2 billion worth of goods, an increase of 10 percent over last year. Many managers involved in foreign trade think that the following five measures must be taken to guarantee the fulfillment of the foreign trade task: 1) Gradually change the situation in which foreign trade and export rely too much on Hong Kong and give full play to the coordinating and service functions of concerned government and civilian organizations to help enterprises vigorously expand the deep sea market which is based on Japan, Europe, and the United States. 2) Expand the export of locally made products, speed up the assimilation of imported new technology, develop high-tech industries, strive to improve product quality, update designs and variety, and increase the competitiveness of the SEZ' [Special Economic Zones] products in the international market. 3) Strengthen the building of export bases including bases for fresh and live commodities and make special efforts to vigorously establish together with inland units bases for raw materials and export goods. 4) Vigorously readjust export product mix and strive to develop the production and export of machinery and electronics products and other products unaffected by the readjustment of foreign trade policy. 5) Gradually establish a system to issue the certificate of origin for export commodities, strengthen product quality inspection, honor contracts, deliver goods on time, and establish the international reputation of the SEZ' enterprises and products.

Many managers also mentioned that to overcome difficulties, first one must be in good mental condition. Leading cadres, in particular, should build confidence and guide the broad masses of workers to vigorously and voluntarily do a good job in their work. Only by so doing can they guarantee that Shenzhen's foreign trade work will continue to maintain the fast development speed and successfully fulfill this year's plan and target.

### **Shenzhen's Economic Goals for 1990**

*90OH0323A Guangzhou NANFANG RIBAO in Chinese 15 Jan 90 p 1*

[Article by reporter You Yanling (3266 7159 0407): "Shenzhen's Economy Will Ascend to a New Level"]

[Text] After making fresh development in the export-oriented economy in 1989 and along with the continuous and steady growth of the national economy, Shenzhen Special Economic Zone (SEZ) will unswervingly do a good

job in the reform and the open policy, vigorously study concrete measures for further opening up, absorb more foreign capital, advanced technology, and managerial experience, and expand foreign trade and economic and technological exchanges in a more effective manner. This was announced at a recent municipal planning meeting.

Shenzhen's total industrial output value was 11.5 billion yuan in 1989, an increase of 29.5 percent over 1988, of which the output value of exported industrial products reached 6.9 billion yuan, an increase of 45 percent. Its proportion in total industrial output value rose from 53.5 percent in 1988 to 60 percent in 1989. The gross value of agricultural output was 240 million yuan, an increase of 12.7 percent. The gross value of export trade was \$2 billion, an increase of 8.1 percent. A total of 720 new contracts were signed with foreign investors, an increase of 3.7 percent. Agreements involving the use of \$500 million were signed, an increase of 4.2 percent.

It was revealed that Shenzhen's total industrial output value is planned to reach 13.5 billion yuan, an increase of 17.4 percent. Its total agricultural output value will reach 270 million yuan, an increase of 12.5 percent. The total output value of exports will reach \$2.2 billion, an increase of 10 percent. The actual amount of foreign capital used will reach \$550 million, an increase of 25 percent. To realize this year's economic plan and target, Shenzhen City decides to readjust economic structure, consider the development of export-oriented and technologically advanced industries as its main goal, emphatically develop especially those "enterprises with three capital sources" which are highly export-oriented, have better economic returns, cause little pollution, and consume little energy, and make the industrial products of the SEZ more competitive in the international market. In the meantime, the SEZ will vigorously carry out infrastructure construction, especially such key projects as airports, Yantian port, railway stations, and three thermal powerplants, and further improve investment environment. In addition, Shenzhen will also sponsor a variety of talks and fairs and volunteer to make proposals to vigorously absorb foreign funds. At the same time, it will also vigorously utilize loans provided by foreign governments and international financial organizations.

While vigorously promoting the export-oriented economy, Shenzhen will continue to reduce capital construction in 1990. The scale of capital construction projects arranged for this year is 22.3 percent smaller than last year's. In addition, it will carry out the "double increase and double economy" campaign to funnel all funds into the development of production.

### Shenzhen To Set Up Enclosed Industrial Zone

90OH0323C Guangzhou NANFANG RIBAO in Chinese  
17 Jan 90 p 1

[Article by reporter Li Tongbo (2621 6639 3134): "Shenzhen Will Build Futian International Industrial Village Which Will Be Completely Enclosed and Financed Solely With Foreign Capital"]

[Text] According to the Shenzhen City government, Shenzhen City has decided to establish in line with international practice a completely enclosed "Futian International Industrial Village" in Shenzhen SEZ [Special Economic Zone] and allow only foreign investors to set up factories financed with their own investment.

This industrial village is located to the west of recently opened Huanggang port, overlooking the New Territory of Hong Kong across a river. It covers an area of 1.67 million square meters. It is a special industrial zone completely enclosed with wire fence. Enterprises set up in here must be technologically advanced, capital-intensive, and wholly owned foreign enterprises. All of their products must be exported. Industrial workers are estimated at 80,000. According to international practice, the Shenzhen City Government will set up an administrative affairs management commission to act as a plenipotentiary of the Shenzhen City Government to take care of everything from coordinating with customs to border inspection, industrial and commercial departments, taxes, commercial inspection, environmental protection, and public security. All vehicles, personnel, and materials for production and daily use passing through this area are allowed to enter the industrial village without having to go through Huanggang port. In addition to all special policies currently in effect in the SEZ, foreign investors will enjoy a series of preferential policies and special measures adopted by the Shenzhen City Government in this industrial village.

At present, the land requisition of the industrial village has been completed. The general plan has been formulated and approved. All pre-construction preparations have been completed and construction will start right after the Spring Festival.

### Shandong Economic Zone Develops Export-Oriented Economy

SK2602093890 Jinan Shandong Provincial Service in  
Mandarin 2300 GMT 23 Feb 90

[Text] Since 1988, when the State Council designated six cities of Shandong Peninsula as an open economic zone, the zone has made noticeable achievements in developing the export-oriented economy. So far, the zone has approved 323 contracts on utilization of foreign capital. These contracts involve \$322 million. The zone has gradually expanded the scale of using foreign capital principally from Asian countries to more than 20 countries and regions, such as North America, West Europe, and Oceania. The structure of using foreign capital tends to be rational.

Of the Sino-foreign joint ventures, cooperative enterprises, and wholly foreign-funded enterprises that have been approved, more than 91 percent are productive projects. The majority of the established enterprises of these categories earned profits and struck a balance between foreign exchange earnings and expenses. Many of their products have entered the international markets.

The zone export commodity structure has further been optimized. Last year, the export volume of the zone's finished industrial products accounted for more than 80 percent of the total value of products purchased for export. Of this, the export volume of Zibo City's finished industrial products reached 94 percent. The zone has made new headway in developing foreign exchange-earning agriculture. Twenty-one of the 44 counties, cities, and prefectures under the jurisdiction of Shandong peninsula purchased more than 100 million yuan worth of products for exports last year. Of this, some counties and cities, including Rongcheng, Wendeng, and Jimo, purchased more than 200 million yuan worth of export products. Along with the development of foreign exchange-earning agriculture, enterprises engaged in production of export products are springing up vigorously among counties, cities [shi], and districts. The counties, cities [shi], and districts under the jurisdiction of Qingdao City have more than 500 enterprises engaged in production of export products. Some 500,000 rural laborers are engaged in the production of export products. There are 24 categories of export products and more than 250 varieties of export products. The zone exports its products to 5 continents and more than 80 countries and regions in the world.

#### **Shanghai 'Silicon Valley' Attracts High-Tech Firms**

*HK2702131390 Beijing CEI Database in English  
27 Feb 90*

[Text] Beijing (CEI)—The Shanghai Caohejing hi-tech park is trying by every means to construct a Chinese "silicon valley" in the city, sources here said over the weekend.

Of these means, the most important is to attract both domestic and overseas enterprises enjoying high and newly developed technologies to settle down in the park.

In 1989 nine Sino-foreign joint ventures with more than \$60 million of overseas investment were approved to establish in the park.

So far the number of joint ventures has totalled 17 in the park, which involve an investment of \$210 million including \$106 million from overseas investors.

This has also brought the number of hi-tech firms within the park up to more than 60.

The park registered 1.84 billion yuan in total industrial output value and \$32.13 million in export value in 1989.

Approved to be set up in June 1988 by the State Council, the park offers preferential policies for hi-tech firms. Power and gas supply, communications facilities and waste water equipment are available in the park.

#### **Stock Exchange Considers Shenzhen Link**

*HK2802031590 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) in English  
28 Feb 90 pp 1, 3*

[By Ian K. Perkin]

[Text] Hong Kong Stock Exchange is looking for "fruitful co-operation" between itself and the planned Shenzhen Stock Exchange when the mainland exchange finally gets under way, probably later this year.

The deputy chief executive of the Hong Kong exchange, Miss Susan Selwyn, told a seminar on stock exchange regulations yesterday that the local exchange was concentrating on internationalising its operations.

She attacked critics of the local exchange, including the media, who too readily found fault with its operation and its regulatory role.

"Over the next few years Hong Kong will be concentrating on further internationalising its stock exchange as well as enhancing its attractiveness from the domestic point of view," she said.

"The Shenzhen Stock Exchange will be opening in the second half of this year and the possibilities of fruitful co-operation sometime in the future are absolutely enormous.

"Our main emphasis for the time being, however, will be consolidating our position with other leading markets by adopting internationally accepted practices," she said.

"Realistic rules go a long way towards facilitating this important process."

Miss Selwyn said it was necessary for the exchange to ensure that the new issue market was readily accessible to all those seeking capital and that the requirements to be met encouraged rather than inhibited suitable companies from listing.

But she indicated that too many people were too willing to denigrate the local share market.

"It is important to take note of standards and access to capital in other markets, but there is tendency by some at the moment to latch on to rather flimsy statistics to create a spurious case for Hong Kong being a decreasingly attractive place to list," she said.

"The press sometimes, inadvertently I am sure, supports this tendency with, for example, the recent suggestion that some of our blue chips were about to move out and list in Singapore, which was simply not true."

She said Hong Kong's economic strengths were well known and now that the Basic Law had been released it had, one way or the other, reduced the level of political uncertainty.



"We are in conventional terms one of the top-grade financial centres and our stock market is completely open compared with others in the region," she said.

"We have no nationality restrictions on membership or company ownership. Companies come here because of Hong Kong's strengths.

"We don't fetter them with regulations that prevent them listing elsewhere and I would like all the good points about Hong Kong to be in the headlines above everything else," she said.

Miss Selwyn's remarks came as the Hong Kong Bank economics department issued a report on the Hong Kong market suggesting that political and economic factors would continue to affect trading in the market this year.

"The performance of the Hong Kong stock market in 1989 was quite disappointing, largely due to the great perceived risk of investing in Hong Kong in the aftermath of events in China during June 1989," the report says.

"With economic growth expected to be sluggish this year, share prices are likely to be overshadowed by the prospects of lower corporate profit growth in the coming months.

"However, the low rating of Hong Kong shares means that the downside risk appears to be relatively low.

"With the longer term prospects for the local economy remaining promising, the better managed companies represented in the local stock market should offer good long-term investment opportunities," the report says.

"The performance of share prices will continue to be affected by uncertainties and may well be volatile in line with a higher level of volatility on world financial markets.

"Risk management should therefore be given more prominence in making investment decisions," it adds.

#### **Shandong's Jinan Designated as Open City** *HK2802123790 Beijing CEI Database in English* 28 Feb 90

[Text] Beijing (CEI)—The State Council recently approved Jinan City, capital of Shandong Province to be one of the open cities, authoritative sources disclosed here recently.

The new approval entitled the city with all the preferential policies exclusively enjoyed now by the Yangtze River and Zhujiang River Deltas, Xiamen, Zhangzhou and some other coastal open cities.

Now nearly all the industrial cities of Shandong Province have been included in the open city list, namely Qingdao, Yantai, Weihai, Zibo, Weifang and Rizhao and the capital city Jinan.

## **LABOR**

### **Licenses To Limit Labor Influx Into Cities**

*HK0602021690 Beijing CHINA DAILY in English*  
6 Feb 90 p 1

[By staff reporter Wen Jia: "Licences Will Limit Labourers in Gold Rush"]

[Text] The influx of rural labourers into cities is expected to ease considerably this year, as a result of intensified government controls, officials said in the Chinese capital.

Vice-Minister of Labour Li Peiyao told China Daily yesterday the government will issue licenses to rural workers allowed to enter the cities. Rural workers without licences will be banned from working in urban areas.

The labourers will be encouraged to employ themselves in a diversified rural economy and help increase agricultural production that has been in stagnation for several years, he said.

The measures are mainly aimed at preventing a mass exodus of rural labourers from further burdening the already overcrowded urban labour markets. This is to ensure social stability in the country.

"It's time to cool down the over-heated transfer of rural labour to urban areas," said Li.

A year ago, millions of rural people headed for cities in a surprise "gold rush" soon after the 1989 Spring Festival. They were looking for good jobs and good money. But the unemployment rate in urban areas had risen to about three percent by the end of last year.

Li said the rush resulted from the economic over-expansion, the target of the current austerity campaign.

"The situation this year will be better, anyway," Li said, for the nation is experienced and the cities "well-prepared."

Despite the general retrenchment, urban enterprises such as coal mines, textile factories and cleanup teams need rural labourers. Many urban people shun such jobs.

Li said every rural labourer must seek licences from the labour department before he can be employed in the city this year. Rural people also need temporary residency certificates issued by public security departments.

And official supervision over the labour markets will also be tightened.

However, local government leaders, especially in such provinces as Sichuan, already burdened by surplus labourers, must make every effort to persuade farmers to stay home.



Li is leaving Beijing for Sichuan, Hunan, Hubei provinces and the Guangxi Zhuang Autonomous Region later this month to promote the measure. The bulk of the mass exodus last year originated from these regions.

The basic solution for the labour problem is to increase production, he added.

Several million people left city jobs, and returned to the countryside last year as the government pressed its austerity programme. Li said some of them are doing well in agriculture now.

In Shandong Province, 80,000 builders are contracted to work on a large water conservation project after returning home from cities. Returned farmers in Zhejiang Province are back to working the land.

In addition to farming, Li said, farmers are also working in local trades and services.

Private family enterprises flourished to more than 200,000 in Huaiyin, Jiangsu Province last year, employing about one million people; while many returned peasants in Tunliu County of Shanxi North China, would like to open food and fruit stalls in local towns.

### Family Planning Minister Terms Work 'Difficult'

OW1302073590 Beijing XINHUA in English  
1543 GMT 12 Feb 90

[Text] Jinan, February 12 (XINHUA)—Peng Peiyun, minister in charge of the State Family Planning Commission, said today that this year's birth control work in China will focus on reducing the birthrate in rural areas.

China has made outstanding achievements in population control, but the work is still difficult, she said, adding that in the first year of the 1990s, China will take more effective measures to implement family planning policies.

Speaking at a national family planning conference, which opened in Taian City in Shandong Province today, Peng said the birthrate on the Chinese mainland last year was 20.83 per thousand, and natural population growth rate was 14.33 per thousand. China's net population increase in 1989 was 15.77 million.

The baby boom will continue through the new decade in China.

Peng Peiyun outlined this year's population control tasks—to make greater efforts to strengthen work at the grassroots, improve the family planning target responsibility system, put emphasis on reducing the birthrate in rural areas, improve the work of familiarizing people with family planning policies, take further legal measures to control population growth and coordinate family planning work between different departments.

### Jiang Zemin, Li Peng Stress Family Planning

OW1402105190 Beijing XINHUA in English  
0852 GMT 14 Feb 90

[Text] Beijing, February 14 (XINHUA)—China's senior party and government leaders have urged all social sectors to put more effort into family planning.

In a joint letter written to participants in a national family planning conference here yesterday, Jiang Zemin, general secretary of the Communist Party of China (CPC) Central Committee, and Premier Li Peng stressed that the practice of family planning is the basic national policy in China.

China expects another population boom in the early 1990's. If no effective measures are taken to control the population growth, China will witness even greater difficulties in its modernization drive and efforts to improve people's living standards, the letter says.

Jiang and Li urged party committees and governments at all levels to enhance leadership, organize people to disseminate family planning policies and raise the quality of the population.

The two leaders called on the participants in the conference to heighten their understanding of party policies, rely on the masses and promote the family planning drive to a higher level.

## AGRICULTURE

### Analysis of Grain Price Reform in Yulin City

90OH0187A Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY] in  
Chinese No 11, 23 Nov 89 pp 44-47

[Article by Cao Jianjun (2580 1696 6511), of the State Price Bureau Price Research Institute: "Problems and Solutions in Grain Price Reform—an Investigation and Analysis of the Reform of the Grain Purchasing and Marketing System in Yulin City, Guangxi"]

[Text] The grain price reform is making little progress, and no real breakthrough has been made so far. Not only has the reform failed to establish a pricing mechanism backed by the market, but its effectiveness in readjusting the irrational pricing system is also diminishing. How can the reform deadlock be broken? With that question in mind, we conducted an investigation of the reform of the grain purchasing and marketing system in Yulin City, Guangxi Zhuang Autonomous Region.

#### I. Reform Ideas and Implementation Plans

The reform of Yulin City's grain purchasing and marketing system is a reform experiment drafted by the former CPC Central Committee Rural Policy Research Office and approved by the Yulin Municipal Government. It is expected to rationalize the grain production and management mechanism by linking purchasing with marketing and turning hidden subsidies into open subsidies.

In the grain price reform, the following principles are being followed: First, it is necessary to change the production and management mechanism and act according to the law of value; that is, to achieve a balance between grain production and consumption and realize the exchange of equal values. Second, it is necessary to eliminate the corrupt practices in grain production and management and, through the reform, achieve certain major goals, including increased grain production, improved purchasing, reduction or elimination of losses, and reduced grain consumption or sales. Third, the hidden subsidies should be turned into open subsidies without increasing or reducing the overall state subsidies for grain purchasing and marketing. Fourth, in the course of the reform, consideration should be given to the interests of all concerned. Specifically speaking, the peasants' income should be increased through price readjustments; the changes should be kept at a level tolerable to the financial departments at various levels and the enterprises; the living standards of urban residents should be guaranteed to not drop lower; and market prices should be kept relatively stable.

The entire reform plan is to be carried out in three steps. First, while retaining the purchasing and marketing quotas, initial actions should be taken to rationalize the purchasing and selling prices and improve the purchasing and marketing subsidies. Second, while retaining the subsidies, quotas will be abolished, and prices will be

decontrolled. Third, all grain subsidies and other living allowances will be incorporated in basic wages or enterprise production costs so that they will be absorbed and assimilated gradually and ultimately disappear naturally.

At present, Yulin City is in the first step of the reform plan, which mainly consists of the following: (1) Raising grain purchasing and selling prices. The purchasing price of the No 3 paddy rice, which is used as a standard, is raised from 19.59 yuan to 22 yuan per dan. The prices of other varieties are readjusted according to the existing price differences. In addition, the "three link" policy on grain purchase contracts [the policy of linking the purchase of grain under contracts to the supply of chemical fertilizers and diesel oil at fixed prices and of paying for the purchase in advance—JPRS] is equivalent to a price difference of about 6 yuan. Thus the peasants actually get 28 yuan for every 50 kg of grain. The selling price of the Biao 2 rice, also used as a standard, is raised from 13.90 yuan to 40 yuan per 50 kg. (2) Reforming the subsidy system. The former hidden subsidies are turned into open subsidies. As an award for overfulfilling state purchase quotas, peasants may choose either material goods or the difference between the list price and the market price. Of the price difference of urban residents' grain rations (0.522 yuan per kg), the autonomous region will pay a unified subsidy of 0.2298 yuan per kg. The remaining 0.2922 yuan per kg will be borne by units at various levels. Administrative units and establishments will subsidize their workers and staff members. Enterprises will subsidize their workers and staff members, and the subsidies will be included in their production costs. Individual households engaged in industrial, commercial, and other operations are treated as enterprises. Of the fixed quotas of grain marketed in rural areas, the price difference will be subsidized by the municipal finance department.

The reform plan was put into effect on 1 April 1988.

## II. Evaluation of Results

The reform of the grain purchasing and marketing system involves a readjustment of the interests of the state, enterprises, residents, peasants, and others. The reform's positive effects include mainly the following: 1) By raising the grain purchasing prices, the peasants' income has increased by more than 2 million yuan within a year. 2) The phenomenon that the state grain purchasing price exceeded the selling price is corrected. 3) By raising the selling price of grain, sales have dropped. As the records show, the amount of grain sold between April and December 1988 was reduced by 820,000 kg from the same period a year ago, and the grain departments saved 1.86 million kg from the targeted amount of grain for rationing. 4) Subsidies which used to be paid by the state alone are now borne separately by units at various levels, and the overall impact has thus been reduced. The subsidies paid by enterprises amount to 0.88 percent of total costs, and for commercial enterprises, they amount to one percent.

However, the reform is adversely affected by changes in the economic environment, particularly the sharp rise in grain price caused by natural disasters, and to a very large extent the positive results produced by the reform are canceled out. First, the rise in market grain price has again disrupted the just-rationalized price relation. According to the original plan, the problem of the state purchasing grain at a higher price and selling it at a lower price was solved (the state price was raised to just slightly under the market price), and the "three link" policy on grain purchase contracts also added to the income of the peasants. The state purchase price and the market price were thus basically brought into line. However, when the market grain price rose to 2.40 yuan per kg, the price relation returned to the irrational former state, only at a higher level. Second, the readjusted state purchase price is still relatively low, not enough to arouse the peasants' enthusiasm to increase grain production and sell more grain to the state. Calculated on the grain year of Guangxi Autonomous Region, the total grain output of Yulin City dropped by 64,798 tons, or 17.54 percent, and 4.78 percentage points more than the 12.76 percent drop of the autonomous region as a whole. Grain purchased by the grain departments in 1988 also dropped by 2.69 million kg, or 6.6 percent, from the previous year, and grain purchased at negotiated prices dropped by 3.865 million kg. Third, the generally rising prices and costs of other trades in the past year also seriously hampered the grain price reform. According to the reform plan, grain purchasing and selling prices are linked, and the selling price should be higher than the grain departments' operating costs. It means that at a purchasing price of 22 yuan per 50 kg and at a 70 percent production rate from unprocessed grain to husked rice, the theoretical selling price of the rice should be 35.20 yuan, and at an actual selling price of 40 yuan, a difference of 4.8 yuan can be gained. However, the grain departments are obligated to meet a base figure in supplying food grain at fixed prices. As the population grows, it is inevitable that an increasing proportion of grain purchased at negotiated prices will have to be sold at the lower fixed prices. In addition, the transportation and miscellaneous expenses, interests, wages, enterprise management expenses, and other expenditures in the grain operations are also increasing. Thus the grain departments are losing more money each year in supplying grain at fixed prices. In 1988, they lost 4.49 million yuan, a 62.68 percent increase over the 2.76 million yuan loss in 1987.

Besides, there are also frictions in practical work. First, subsidies are not always paid on time. The Guangxi Autonomous Region granted an additional experimental risk fund of 1 million yuan to Yulin City in support of the reform of the city's grain purchasing and marketing system, but the fund has not yet become available. Yulin City's yearly grain price subsidies for residents should be disbursed in two installments, one in March and April and the other in September and October. But, because the banks tightened the money supply, the grain departments ran short of funds and only began to prepare to

pay the first instalment in April. Second, the burdens on the finance departments, enterprises, and residents have actually become heavier. The Yulin prefectural finance department pays 2.97 million yuan each year as subsidies to its workers and staff members. The enterprises have to increase their subsidies to workers and staff members by 2.67 million yuan a year, which puts a rather heavy burden on the less profitable and losing enterprises. As to the residents, because the standard rice, on which the subsidies are based, is hard to get, many have to spend more money to buy better-quality rice. Moreover, since the beginning of the reform, grain rations are supplied on a monthly basis, and one month's rations cannot be transferred to the next month. In the last year, because of reduced local grain production, flour and corn were brought in from other areas, which changed the original 70 percent-rice grain supply pattern, and the people were complaining. Third, the grain markets in neighboring areas feel the impact. Yulin City's reform has not caused the market grain price to rise in neighboring areas, but as grain purchase is a function of local governments, the reform in Yulin has indeed increased the financial pressure on the neighboring areas. Guixian County is bordering on Yulin City. To prevent peasants from selling grain to Yulin City, where the price is higher, the department concerned in Guixian County, while keeping its grain purchase price unchanged, has been paying the peasants an additional 2.41 yuan per 50 kg as a reward, which is only a disguised form of a purchase price hike. The increased expenditure is charged to the account of the county grain department. In 1988, the county paid an additional 1.6 million yuan for this purpose.

An analysis of the above-mentioned conditions shows that Yulin City has paid a fairly high price for the reform of the grain purchasing and marketing system, but has failed to achieve the desired results. The most important is the failure to rationalize the pricing system, and also the failure to lay the foundation of a unified regulatory mechanism for the grain market. On the contrary, the side effects occurring in the reform have made the work even more difficult for the future, and still higher prices must be paid to pursue the reform further in depth. The entire work is in a dilemma, unable to advance and impossible to retreat.

### III. Analysis of Conditions Relevant to Grain Price Reform

The reform of Yulin City's grain price and purchasing and marketing system has suffered setbacks. The reasons include the influence of outside factors as well as shortcomings of the reform plan itself. In the formulation and implementation of the reform plan, attention was not paid to the relevant conditions which are essential for the success of the grain price reform. The conditions are:

**1. Basic stability of market prices should be maintained.** This is a basic prerequisite for rationalizing the grain pricing system. The extent to which the grain purchasing and selling prices were raised in the reform plan was

determined according to the market prices at that time. As the first step to rationalize the prices, the purchasing and selling prices of grain should be kept stable for a period of time. The sharp rise of the market prices broke the equilibrium that had been achieved among market prices, supplies, and demands, rendering the reform plan useless, giving false hopes to both producers and consumers, causing new problems for the finance departments, and putting the reform program in a predicament.

**2. There are three aspects to rationalizing the grain pricing system.** First, the phenomenon of purchasing at a higher price and selling at a lower price must be changed. Second, the planned prices should basically level with the market prices, and their changes should be effectively coordinated. Third, after the reform of the grain pricing system, the peasants' income from growing grain should be basically equal to that of other trades.

The first, the phenomenon of purchasing at a higher price and selling at a lower price, is the accumulated result of state policies over a long period of time. To change this phenomenon, it is necessary to reduce or at least not increase the state subsidies, finding other ways to pay new subsidies. In Yulin City, subsidies are paid by units at various levels, rather than by the state.

The second is a question of how to handle the double-track price system. The double-track price system is characterized by market prices being in the lead. Market prices actually control the earnings of the grain producers, and thus have a bearing on the result of the grain price reform. If the market prices are rising rather quickly and continuously, the planned prices for various reasons are bound to fall behind, causing the two to become out of balance and the failure of the reform. Yulin City's reformers think that the current market prices (1.80-2.00 yuan per kg) can stabilize the grain market and arouse the peasants' enthusiasm to grow grain, but it is simply impossible to readjust the planned prices by such a big margin.

The third refers to a comparison of earnings. At present, owing to irrationality of China's price system, production structure, and management structure, the earnings of grain producers have always been lower than those of other trades, and it is very difficult to close the income gap between different trades by relying on prices alone.

The above-mentioned three aspects are all indispensable conditions for rationalizing the price system. Failure to achieve a proper balance in any of the three aspects will in time lead to a return of the irrational state of the price system on an even higher level.

**3. Whether the price mechanism can regulate the grain market depends mainly on whether the prices can achieve a balance between supply and demand and between various interests.** Judging China's realities, better social and economic results can only be achieved by raising prices. A lowering of grain prices will deal a serious blow to production, undermine the economic foundation, and

cause an enormous waste of grain. But how much should grain prices be raised? It seems that it should first make the income from growing grain equal to or more than income from growing industrial crops and even industrial work or sideline production, and it should make the grain prices at country fairs equal to or lower than the state grain purchase prices, so that the double tracks of prices will merge naturally into one; second, it should be tolerable to state finance departments at various levels; and third, it is necessary to insure that the enterprises and residents can withstand the grain price hikes. If these three conditions are not met, the effect of the price hikes will quickly be offset by various unfavorable factors.

**4. Consideration should be given to the ability of all concerned to tolerate price hikes.** This involves the state finance departments, enterprises, and residents. In the past, the state alone paid huge amounts of subsidies for the production, management, and consumption of grain. As production grew, so did the amount of subsidies. Not only was the state unable to bear the burden indefinitely, but it also made ineffective the regulatory function of the market mechanism. This situation must be changed; however, forcibly changing the situation in a short period of time can also cause inordinately great economic shocks. In the reform, enterprises are requested to bear a part of the financial burden (industrial support for agriculture). The problem is, the different performance levels of enterprises will make it difficult to determine the subsidies each should actually be paying. Also, adding subsidies to costs will encourage cost-propelled price hikes, and the burden of rising prices will ultimately be borne by the entire society. It is, therefore, not suitable to raise prices by a rather large margin. The residents' interests are the most vulnerable. Though they will be given subsidies when prices go up, experience has shown that subsidies can never keep pace with price hikes. Therefore, as our wages are low, the extent to which prices can be raised must be even more strictly controlled. Otherwise, people in various circles not able to handle the high prices are bound to complain. Obviously it is no easy task to properly coordinate the abilities of all the parties concerned.

**5. It is necessary to properly handle the relationship between the overall interests and local interests and pay attention to eliminating the undesirable impact of local experiments.** At present, the unified national market has a rather strong influence on the local markets. First, changes in the national grain supply and demand situation will have a most important influence on the grain prices and supply and demand of local areas in future years. Second, the transfer of grain from grain-producing or grain-rich areas to grain-deficient areas by forcible administrative means in quantities and at prices not restrained by market forces is in fact a unified market operated by the government. In the course of the economic reform, especially since the localities assumed responsibility for their own finances and the peasants acquired a new status in production, the above-mentioned relation has changed somewhat. The national

situation still has a decisive influence on the local areas, but the changes it may cause tend to be exaggerated. When supply falls short of demand, the shortage may be exaggerated in people's minds, and when supply exceeds demand, people may get the false impression that the market is glutted. At the same time, with the localities assuming responsibility for their own finances and grain purchasing price exceeding selling price, it has become more difficult for the national market to regulate grain supplies. There is a general tendency in the localities to oppose the blockade by the unified market, and the peasants have acquired some rights to make their own decisions on how much to produce, whom to sell to, and how much to sell. When economic actions are governed by the principle of producing what is most profitable, they are bound to cause changes in local production structures, price levels, and commodity flows, and, as a result, the local changes will affect the overall situation. Local experiments often take the lead in raising prices to attract commodities from nearby markets, which will lead to economic frictions and market blockades between areas. Therefore, the impact of Yulin City's reform experiment on neighboring areas has been the focus of people's attention all along. It was difficult to design for the plan a fairly satisfactory set of policies and measures to deal with this possible problem.

The above analysis shows the more important conditions required by the grain price reform. It is perfectly understandable that catalyzed by the external cause of the sharply rising market prices, the shortcomings of the plan have become all the more prominent and offset the positive effects of the reform.

#### IV. Lessons From the Reform

Yulin City's experiment on reforming the grain purchasing and marketing system has provided valuable lessons for further reforms.

1. The regulatory function of the market mechanism must be used properly. It is not true that the market mechanism can play its regulatory role and make society accept the result of its regulation under any conditions. In reforming the grain prices, attention should be paid to two basic requirements. First, a basic balance between market supply and demand is needed. When supply and demand are out of balance, there should be appropriate remedial measures. Second, it is necessary to proceed from the realities and avoid major changes to the existing interest relations. If the reform causes too much loss to some people, it is bound to run into roadblocks and end up in failure. Therefore, there should be no large changes in prices as well as the supply and demand situation. Under no circumstance should the function of balancing grain supply and demand be rashly and completely turned over to the market. It is still imperative to continue necessary administrative interventions and financial subsidies to guarantee basic grain supplies for residents and protect the interests of producers and consumers.

2. It is necessary to actively implement the effective ways to stabilize the grain market and also explore new ways.



The first is to improve the management and efficiency of the grain departments to save circulation expenses. The second is to improve the monopoly of the means of agricultural production to guarantee market supplies at reasonable prices. The third is to establish various forms of grain markets, including spot markets, futures markets, and futures contract markets.

3. It is necessary to set up a special grain regulation fund to keep market fluctuations under control. The fund will be used mainly for: (a) paying a fixed amount or proportion of losses suffered by the grain departments, which will be repaid; (b) paying grain transportation and storage expenses; (c) meeting additional needs for funds by the grain departments to buy more grain or sell grain in large quantities during specific periods; and (d) paying the necessary expenses for intervening in the grain futures markets and grain purchase contract markets. The fund can raise money from different sources. It can be reform experiment risk funds appropriated by the government, or a part of the subsidies originally intended for the grain departments, or, within a certain limit, funds raised in society.

4. To regulate and control the markets, the government should do a good job in building basic market facilities, such as trading facilities; laying down market trading rules, for example, trading scope of limits and varieties; examine the qualifications of traders and inspect and supervise transactions; collect market information and give guidance; and so on.

In short, Yulin City's reform experiment has shown that it is imperative to have an effective way to coordinate the plan with the market. The way out lies in cultivating and developing the market on the basis of available conditions, to enable the market to maintain relative stability while playing a good regulatory role so that the reform will achieve the desired goals.

#### **Gradual Centralization of Xinjiang's Rural Economy**

90OH0278A Urumqi XINJIANG RIBAO in Chinese  
2 Jan 90 p 2

[Article by Correspondent Yan Ming (0917 2494): "How Can Rural Reform Be Deepened?— Autonomous Region CPC Committee Department of Agriculture and Industry Director, Xu Zhensheng (4958 2182 5116), Replies to Correspondent's Questions"]

[Text] [YAN MING] In the process of carrying out the spirit of the CPC Committee's 5th Plenary Session, how can the deepening of rural reform be sustained and the stability, continuity, and seriousness of rural policies and agricultural policies be maintained to accelerate the development of farming and animal husbandry?

[Xu Zhensheng] Practice during 10 years of reform in the autonomous region has demonstrated that diverse forms of production responsibility systems, of which family output-linked contracting is the main one, were in

keeping with the level of development of productivity in Xinjiang's rural villages and pastoral areas, and that they played a major role in bringing about 12 consecutive years of bumper harvests in the autonomous region's agriculture and animal husbandry. Today, they still possess exuberant vitality. Nevertheless, family output-linked contract responsibility systems are by no means the epitome of perfection; there is still need for their improvement and perfection. As a result of failure to understand completely their limitations in the process of promoting large scale contracting during the early period of reform, the "unity" aspect was neglected, the collective economy was weakened, and the masses' concept of a collective economy and a cooperative economy was watered down. Secondly, reform and development were sundered, attention directed only to reform without paying attention to investment. As a result, the state's percentage of investment in agriculture declined year by year. Third was insufficient maintenance of policy continuity and stability. Many policies were changed even before they had been truly applied, and this dampened peasant enthusiasm. All the above are problems that must be perfected and solved in the deepening of rural reform. For the near future, rural reform can only tap more of the potential within rural villages.

In view of the realities in Xinjiang, what is the overall guiding thought in the deepening of rural reform?

[Xu Zhensheng] The overall guiding thought is adherence to the party leadership, adherence to a socialist orientation, and a stable and perfected two tier operating system in which the family output-related contract responsibility system is the foundation, closely linking enthusiasm for family operations and the advantages of unified operations, and adhering to the "three no changes." No changes in land contracting are to be made for 15 years, and the principle of overall stability with only small readjustments is to be followed in gradually perfecting land contract agreement control. It includes the establishment and building of a social services system, perfection of various measures associated with reform, increasing the strength of the collective economy, and advancing steady development of the rural economy.

[YAN MING] What will be the main emphasis in future perfection of the family output-related contract responsibility system?

[Xu Zhensheng] Stability is necessary for perfection; the emphasis has to be on perfection, and the main emphasis has to be on steady strengthening of the unified operations tier, and perfecting the social services system. In a region such as Xinjiang where there is irrigated farming and a traditional livestock raising industry, it is very difficult to accomplish many things household by individual household. The "five unities" have to be taken as a major ingredient in strengthening the leadership of the rural economy, the main emphasis being placed on providing services before, during and after production.

More has to be done to build a community-style cooperative economic organization, to establish representatives of the public ownership of the means of production, including land, in the unified operations tier, to perfect the system for letting contracts in the output-related contract responsibility system, and to improve land control, contract control, and financial control within the cooperative economy.

During rural reform, it is necessary to maintain stability and continuity in all rural economic policies. Blowing alternately hot and cold positively cannot be allowed, or the people will lose confidence. All documents issued by the CPC Central Committee, the State Council, the autonomous region CPC committee and people's government are to be resolutely carried out without making changes at will. The family output-related contracting systems in agriculture, animal husbandry, forestry, horticulture, and the fishing industry already underway in the region may not be changed lightly. Livestock, forest trees, orchards, and fish ponds that have been turned over to households at a set price can generally not be taken over by collectives. If contracting norms are unfair, when contracts are up, needed readjustment may be made and contracting continued. If the public is very dissatisfied before contracts are up, appropriate readjustments may be made through discussion. In cases where livestock on state-owned ranges have been turned over to households for payment, changes may also not be lightly made. The principle of stabilizing first and then perfecting should be adhered to, major efforts being made to perfect control.

[YAN MING] Reportedly, when rural villages began the contracting system, most places contracted out collective land to households on the basis of the number of people in each family, all the fields being contracted out "everyone dividing up the fields, and every household farming the land." This played a positive role at the time in solving the problem of peasants "eating out of a large common pot" and having sufficient to wear and to eat. However, as the rural commodity economy development and changes occurred in the number of people in each household, as well as in the movement of the workforce, many abuses appeared in this egalitarian contracting of the fields. In the deepening of rural reform how can more be done to build a land system and perfect control of land?

[Xu Zhensheng] The land system is a key point in rural reform, and is also the issue about which the peasants are most concerned. While adhering to the overall principle of no change in the land contracting system, accommodations are to be made to solve conflicts disadvantageous to the development of productivity. One such is to follow the principle of overall stability with small readjustments to solve the contradictions of too great a dispersal of plots and to readjust returns from the land. Second, places having requisite conditions (such as suburbs, and places close to oil fields and factory or mining enterprises) are to try out a "three fields system," or a "two fields system" conducting operations that provide

the economies of scale or specialized production. Third is trial use of a land leasing system, collectives leasing some land, or newly developed land to peasant household having a large workforce but little land, or to workforces that have come from elsewhere. This would both solve the problems of seizures of resources, plundering style farming, and large scale exploitation of hired labor, while also increasing collective income and strengthening the collective economy. Fourth is that the economies of scale should generally be derived from newly developed land, such land no longer being divided among individual households. However, in some impoverished counties in southern Xinjiang, and in places (such as Hotan Prefecture) where the per capita amount of land is extremely small, some of the newly developed land should be divided up for contracting to peasants to help the peasants shake off poverty as quickly as possible.

[YAN MING] How can rural villages in the region develop a collective economy and strengthen the collective economy?

[Xu Zhensheng] Practice has shown that a collective economy is always an important pillar of the rural economy. Without a strong collective economy, it becomes impossible to do many things one wants to do. Not only is this bad for development of rural productivity and for demonstrating the superiority of socialism, but it also makes it impossible for the peasants to enjoy common prosperity. Therefore, it is necessary to develop a new collective economy in a planned, step-by-step way in the future, constantly strengthening the collective economy. Specific ways and means of doing this include, first, inventorying collective assets, and using a combination of administrative and economic means to recover collectively owned funds owing by peasants, herdsmen, and grassroots level cadres, and the value of various withholdings, livestock, farm machines, and forest trees, then managing and using these funds well. Second is unified collective control over newly developed land, the apportioned part of returns going to the collective. The primary level rural cooperative economic organization has to develop economic diversification, and operate collective breeding industries, aquatic products industries, and agricultural byproduct processing industries. It may also plant new orchards and grow new forest trees, production rights belonging to the collective, and returns divided proportionally to individuals under contracts. Third is to review and perfect all kinds of contracts for the purpose of improving contract fulfillment rates and recovering various funds that collectives should recover. Fourth is establishment of rural cooperative foundations to recover idle capital in rural villages, guaranteeing bonuses and rolling over the funds for use in the development of farmland water conservancy, farm mechanization and other production projects. The development and strengthening of the collective economy will require a definite process; it certainly cannot be done with undue haste, much less can the means of production of the

herdsmen and peasants be indiscriminately transferred in an egalitarian fashion in the taking of the same old road.

During 10 years of rural reform, Xinjiang's rural economy has scored extremely outstanding achievements; nevertheless, a serious problem continues to exist on one hand acting tough and on the other hand acting soft. Unless this situation is changed, further deepening of rural reform will be adversely affected. Specifically, unless various economic criminal activities are severely cracked down on, reforms will depart from their socialist orientation. Therefore, it is necessary to genuinely strengthen the party's leadership of rural work and ideological and political work, to strengthen the building of grassroots organizations, to do a good job in the building of spiritual civilization in rural villages and pastoral regions, and to insure that rural reforms develop smoothly in a socialist orientation.

### **Means For Increasing Agricultural Efficiency Proposed**

90OH0278B Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 7 Jan 90 p 4

[Article: "Chen Junsheng (7115 0193 3932) Talks About the Way Out For the Country's Agriculture"]

[Text] How can the problems in China's agriculture be solved? An article by Chen Junsheng that appeared in issue 24 of "Qiushi" Magazine in 1989 maintains that work must be done in three regards:

#### **1. Genuine Increase of Investment in Agriculture**

The central government, local governments, collectives, and the peasants should all increase their investment in agriculture, the central government taking the lead in increasing investment gradually. The state is unable to invest very much money in agriculture, but this amount places an important role in guiding collectives and the peasantry. The peasants are the main element for investment in agriculture, and their role cannot be performed by anyone else. Something that should be given attention is that when some peasants have money now, they think first about building a house rather than investing in agriculture. Direction has to be given about this. The most important things to be done in this regard are to stabilize and perfect the family output-related contract responsibility system, stabilizing the peasant families' long-term farming and management of the land, so that the peasants are not only enthusiastic about using the land, but also about investing in it.

#### **2. In Terms of the External Environment, a Tilt Toward Agriculture Will Require Genuine Solution to Five Problems.**

First, a genuine ideological tilt is necessary.

Second, all departments should make attendant readjustments of the structure of their department's economic plans.

Third, all economic departments concerned, and local governments at all levels should give priority to the supply of chemical fertilizer, agricultural pesticides, agricultural plastic sheeting, farm machines, and the energy and raw and processed materials needed for production.

Fourth, vocational departments concerned should be eager to solve the problems in agriculture that are in urgent need of solution. They should take firm action and the initiative in doing things that can be done. They should also think of ways to do the things that cannot be done for the time being, offering more suggestions, doing all possible to give a green light, and taking the initiative in helping to do them.

Fifth, the peasants' burdens should be genuinely reduced. A survey shows a proliferation of burdens of all kinds everywhere, the number exceeding 70, and increasing with each passing year. They also increase faster than the speed of increase in per capita peasant net income.

#### **3. Need For Full Tapping of the Potential of Agriculture Itself**

First is doing a good job in the full development of agriculture.

The full development of agriculture is, in fact, a major policy decision in the in-depth and in-breadth advance of the country's agriculture. Full development means increasing the material and technical investment in available resources to increase yields per unit of area for a greater return. In addition is developing to the full new resources that can be used to expand the effectively used area and increase effective supply. This is an effective way whereby China's agriculture can break out of its faltering situation to take a new step upward.

Second, agriculture has to develop in the direction of high yields while conserving resources.

China's per capita amount of natural resources and material resources is insufficient, yet waste is very great, so potential is also very great. It is necessary to guide the development of Chinese agricultural in the direction of high yields while conserving resources, enabling potential to be used to the full. Full tapping of the potential of agriculture itself for development in the direction of high yields while conserving resources requires taking firm hold on the key link of science and technology. The country's national resources at the present time make it difficult to increase investment in agriculture enormously all of a sudden for full satisfaction of needs in the development of agriculture. Given the prevailing conditions, increasing investment in science and technology can make it possible for available resources to play a greater role. Science and technology can gain greater outputs without an increase, or with less of an increase in investment.

### Continued Stockbreeding Growth Seen in 1989

HK2302024990 Beijing NONGMIN RIBAO in Chinese  
17 Jan 90 p 1

[Report by correspondent Fan Xiaoyu (5400 1420 3768) and reporter Cheng Yun (4453 0061): "Latest Statistical Data Provided by the State Statistics Bureau Shows Continued Growth in China's Animal Husbandry Production Last Year"]

[Text] The general agriculture investigation team of the State Statistics Bureau made an analysis of the forecast data of 30 provinces, autonomous regions, and municipalities across the country. According to this analysis, China's animal husbandry production continued to grow in 1989. Both the amount of hogs, cows, sheep, and goats on hand, and the output of livestock products increased.

On the basis of a relatively high level in 1988, China's hog production in 1989 continued to grow. The estimated number of hogs sold for food in 1989 was 281 million heads, about two percent over 1988. The estimated number of hogs on hand at the end of the year was 345 million heads, an increase by 0.8 percent. The number of productive sows was 25.87 million heads, an increase by 2.7 percent. The momentum of growth in breeding cows, sheep, and goats remained. At the end of 1989, the estimated amount of big cattle on hand was 127 million heads, an increase by 1.5 percent. Of these big cattle, the number of cows on hand was 99.062 million heads, an increase by 1.1 percent. The total number of sheep and goats on hand was 210 million heads, an increase by 5.1 percent. The number of goats on hand was 96.306 heads, an increase by 5.9 percent, and the number of sheep on hand was 115.467 million heads, an increase by 4.4 percent.

With the sustained growth of the production of hogs, cows, sheep, and goats, the output of various livestock products increased steadily. According to statistics of various localities, China's total output of pork, beef, and mutton in 1989 was 22.58 million tons, 2.9 percent over 1988. The output of pork was 20.78 million tons, an increase by three percent. The output of beef was 960,000 tons, an increase by 0.5 percent. The output of mutton was 840,000 tons, an increase by 4.7 percent. The output of milk was 3.72 million tons, an increase by 1.7 percent, and such a growth rate was the lowest for several years. The output of wool was 230,000 tons, an increase by 4.7 percent.

### Yunnan Grain Storage

40060028B Kunming YUNNAN RIBAO in Chinese  
19 Jan 90 p 1

[Summary] As of 5 January, Yunnan Province had put 890,770,000 kilograms of contracted grain in storage, fulfilling 95.6 percent of the plan; Yunnan procured 465,840,000 kilograms of grain at negotiated prices, an increase of 119,120,000 kilograms over the same period in 1989.

### Sichuan Farmer Income

40060028C Chengdu SICHUAN RIBAO in Chinese  
27 Jan 90 p 1

[Summary] According to a survey of 5,500 rural households in 55 counties, in 1989 the per capita cash income (excluding savings and loans) of farmers in Sichuan was 516.28 yuan, an increase of 60.89 yuan over 1988.

### Shanxi Farmers Increase Agricultural Investment

40060028D Taiyuan SHANXI RIBAO in Chinese  
29 Jan 90 p 1

[Summary] In 1989 Shanxi farmers invested 1.59 billion yuan in agriculture, an increase of 250 million yuan over 1988; on average, each farmer increased production investment by 11.5 yuan over 1988.

### Inner Mongolia Income Per Herdsman Increases

SK3001121090 Hohhot Inner Mongolia Regional  
Service in Mandarin 2300 GMT 29 Jan 90

[Summary] In 1989, the autonomous region's per capita net income for herdsman broke the record of 1,000 yuan for the first time, reaching 1,037.95 yuan. This topped the previous peak.

According to data compiled by an autonomous regional agricultural survey team regarding sampling investigations conducted among herdsman's households under the six stock-raising bureaus, the region's per herdsman net income earned from the household-run businesses in 1989 showed a rapid increase and reached 926.41, a 10.5 percent increase over 1988. The number of sheep sold per household in the region was 16, that of goats sold was 3.4, and that of cattle sold was 1.8. The number of animals sold during the year showed a more than 50 percent increase over 1988. The region's per herdsman cash income earned by engaging in production in 1989 was 1,364 yuan, a 21.5 percent increase over 1988. The proportion of cash income earned per herdsman from the household-run businesses subtracted from the per herdsman total income also showed a 4.9 percentage point increase over 1988.

### National Cotton Procurement

40060030A Beijing JINGJI RIBAO in Chinese  
31 Jan 90 p 2

[Summary] By the end of December 1989, China procured 57,500,000 dan of cotton, a 15 percent decline from the same period in 1988.

### 1989 Per Capita Income of Hubei Peasants Rises

HK1302060390 Wuhan Hubei Provincial Service in  
Mandarin 1000 GMT 12 Feb 90

[Excerpts] Figures compiled recently by the Provincial Statistics Bureau show that the per capita net income of peasants in 1989 was 572 yuan, an increase of 74 yuan

over the preceeding year, recording an all-time high in this aspect. [passage omitted]

According to incomplete statistics, the proportion of per capita net income below 200 yuan of peasant households in our province dropped from 2.67 percent to 1.33 percent of the total peasant households; and the proportion of per capita net income ranging from 500 to 1,000 yuan of rich peasant households increased from 40.88 percent to 49.76 percent.

### Xinjiang Cotton Procurement

40060028E Beijing JINGJI RIBAO in Chinese  
13 Feb 90 p 1

[Summary] As of 31 January, Xinjiang had procured 5.3 million dan of cotton, an 8 percent increase over the same period in 1989. The Xinjiang cotton area increased from 3.8 million mu in 1985 to over 5.6 million mu in 1989, and output increased from over 3 million dan to over 5.8 million dan.

### Free Market Poultry Prices Reported

HK1402094790 Beijing CEI Database in English  
14 Feb 90

[Text] Beijing (CEI)—Following is a list of free market prices of major farm and side-line products in China's major cities on Jan 25, 1990, released by the Ministry of Agriculture:

| City      | (Unit: yuan/kg) |              |
|-----------|-----------------|--------------|
|           | Live duck       | Live chicken |
| Beijing   |                 | 5.60         |
| Tianjin   |                 | 5.60         |
| Taiyuan   |                 | 5.60         |
| Hohhot    |                 |              |
| Shenyang  |                 | 7.20         |
| Dalian    |                 |              |
| Harbin    |                 |              |
| Shanghai  |                 | 11.00        |
| Nanjing   | 5.60            | 8.00         |
| Hangzhou  | 5.40            | 8.00         |
| Ningbo    |                 |              |
| Hefei     |                 | 7.60         |
| Fuzhou    |                 |              |
| Nanchang  | 6.20            | 9.00         |
| Jinan     |                 | 5.60         |
| Zhengzhou |                 | 5.20         |
| Wuhan     |                 |              |
| Changsha  | 6.00            | 7.20         |
| Guangzhou | 8.00            | 22.00        |
| Nanning   | 5.00            | 11.00        |

| City                | (Unit: yuan/kg) |              |
|---------------------|-----------------|--------------|
|                     | Live duck       | Live chicken |
| Chengdu             | 6.70            | 5.80         |
| Chongqing           | 6.20            | 6.60         |
| Xian                |                 | 7.60         |
| Xining              |                 | 7.00         |
| Yinchuan            |                 | 8.00         |
| Average growth rate | 6.14            | 8.13         |
| (Percentage)        | 14.30           | 18.50        |

### Free Market Prices for Pork, Lard Reported

HK1402094990 Beijing CEI Database in English  
14 Feb 90

[Text] Beijing (CEI)—Following is a list of free market prices of major farm and side-line products in China's major cities on Jan 25, 1990, released by the Ministry of Agriculture:

| City               | (Unit:Yuan/KG) |      |
|--------------------|----------------|------|
|                    | Pork           | Lard |
| Beijing            | 7.00           | 6.00 |
| Tianjin            |                |      |
| Taiyuan            | 6.40           | 5.80 |
| Hohhot             |                |      |
| Shenyang           | 6.00           | 4.00 |
| Dalian             | 6.60           |      |
| Harbin             | 6.00           | 1.80 |
| Shanghai           | 10.50          |      |
| Nanjing            | 7.60           | 5.60 |
| Hangzhou           | 6.80           | 6.80 |
| Ningbo             |                |      |
| Hefei              | 5.60           | 5.50 |
| Fuzhou             |                |      |
| Nanchang           | 6.20           | 6.40 |
| Jinan              | 7.00           | 5.60 |
| Zhengzhou          | 6.00           | 4.60 |
| Wuhan              |                |      |
| Changsha           | 6.00           | 8.00 |
| Guangzhou          | 11.00          | 4.00 |
| Nanning            | 8.20           | 4.20 |
| Chengdu            | 4.35           | 5.40 |
| Chongqing          | 7.00           | 9.00 |
| Xian               | 5.30           | 5.20 |
| Xining             | 7.00           | 5.00 |
| Yinchuan           | 6.50           | 5.00 |
| Averaged           | 6.85           | 5.44 |
| Growthrate         |                |      |
| (Percentage) -0.10 | 5.0            |      |



**Free Market Prices Of Chicken, Eggs Reported***HK1402093990 Beijing CEI Database in English  
14 Feb 90*

[Text] Beijing (CEI)—Following is a list of free market prices of major farm and side-line products in China's major cities on Jan 25, 1990, released by the Ministry of Agriculture:

| City      | (Unit:yuan/kg) |      |
|-----------|----------------|------|
|           | Frozen chicken | Eggs |
| Beijing   |                | 4.80 |
| Tianjin   |                |      |
| Taiyuan   | 6.20           | 5.40 |
| Hohhot    |                |      |
| Shenyang  | 9.00           | 5.60 |
| Dalian    | 9.00           | 5.80 |
| Harbin    | 6.00           | 5.00 |
| Shanghai  | 8.80           | 5.80 |
| Nanjing   |                | 6.20 |
| Hangzhou  | 10.00          | 5.50 |
| Ningbo    |                | 6.40 |
| Hefei     |                | 6.20 |
| Fuzhou    |                |      |
| Nanchang  |                | 6.60 |
| Jinan     | 5.40           | 6.00 |
| Zhengzhou | 6.20           | 5.40 |
| Wuhan     |                |      |
| Changsha  | 14.00          | 6.80 |
| Guangzhou | 20.00          | 7.00 |
| Nanning   |                | 6.40 |
| Chengdu   | 6.20           | 6.00 |
| Chongqing |                | 6.40 |
| Xian      | 8.00           | 5.80 |
| Xining    | 7.20           |      |

|                      | (Unit:yuan/kg) |      |
|----------------------|----------------|------|
| Yinchuan             | 11.00          | 5.60 |
| Averaged growth rate | 9.07           | 5.94 |
| (Percentage)         | 31.60          | 4.20 |

**Inner Mongolian Herdsman's Income, Grain Production Up***OW1602091490 Beijing XINHUA in English  
0802 GMT 16 Feb 90*

[Text] Beijing, Febraury 16 (XINHUA)—The Inner Mongolia Autonomous Region, in north China, reaped a record of 27.1 million tons of grain in 1989 in spite of serious natural disasters, the PEOPLE'S DAILY reports today.

The annual income of herdsmen in the region averaged 1,038 yuan last year, 187 yuan or 22 percent more than that in the previous, the paper reports.

**Government Reported To Increase Agriculture Loans***OW2202184990 Beijing XINHUA in English  
0842 GMT 22 Feb 90*

[Text] Beijing, February 22 (XINHUA)—Government loans to agriculture in 20 provinces, autonomous regions and municipalities have totalled 109.1 billion yuan this year, 10 percent more than last year's figure, the PEOPLE'S DAILY [RENMIN RIBAO] reported today.

The loans will mainly be used for grain production and pig-breeding, the paper said, quoting figures recently issued by the State Statistics Bureau.

The state will provide farmers with 93.38 million tons of chemical fertilizer this year, 4.16 million tons more than it did last year.

The supply of pesticide, plastic sheeting and improved varieties of seed will also be increased, the paper reported.

Last winter farmers in 23 provinces and autonomous regions made another 619,000 ha irrigated.

## Ancient Civilization Seen Foundation for Patriotism

### Ignorance of Traditional Culture Decried

90ON0265A Beijing QUNYAN [PUBLIC TRIBUNE] in Chinese No 12, 7 Dec 89 pp 5-6]

[Article by Jin Kaicheng (6855 7030 6134): "Acceptance of the Uplifting Influence That Traditional Culture Provides To Reinforce Patriotic Thought and Sentiment"]

[Text] The uplifting influence of traditional culture is an important means for inculcating and reinforcing patriotic thoughts and sentiment. Therefore, most of the countries of the world pay close attention to culture, using it to reinforce national cohesiveness and love of country.

In every country, and among every people, traditional culture inevitably exerts an uplifting influence on every member of society. One might say that it is transmitted without the conscious will of individuals since, from the moment of birth, a person tumbles into the social reality of a certain cultural tradition; thus, he or she accepts the uplifting influence of traditional culture from the very beginning. There are five main aspects or channels for this uplifting influence and nurture, as follows: One is the history of one's country or people; the second is various material and spiritual creations; the third is the habits and customs of the people; the fourth is the nation's language; and the fifth is the natural environment (which also profoundly embodies the cultural tradition as a result of generation after generation of remodeling, and re-creation). The uplifting influence that is provided in these five ways can effectively sustain a people's style and manner, and can effectively draw upon a people's wisdom and strength. In addition, it fosters a profound love of country in people that binds them closely to the good earth of the motherland and to the history and culture of the motherland.

Although acceptance of the uplifting influence and nurture that traditional culture provides is not transmitted through an act of personal free will, this does not mean that the individual accepts this uplifting influence and nurturing entirely passively. Actually, the person being nurtured always plays a dynamic role as well; he or she reacts to the traditional culture. Therefore, one must strive to apply a correct attitude and correct behavior in dealing with traditional culture, and the correctness of attitude and behavior is manifested largely in carrying on the traditional culture, developing what is useful and healthy in it, discarding what is not. The traditional culture of every country inevitably contains both excellence and excrescence, so a question arises about what to carry on, what to develop that is useful and healthy, and what to discard. If a correct choice is not made in this regard, it will be disadvantageous to the healthy development of traditional culture, and cannot help but adversely affect the active uplifting and nurturing effect that traditional culture exerts on people.

A look at history during the 40 years since the founding of the People's Republic shows quite a bit of work has been done in continuing and developing what is useful and healthy while discarding what is not; however, a certain tendency really exists in this work, namely that the work of carrying on and sifting the good from the bad has not been sufficiently pervasive or enduring, and judgments and sifting have frequently tended to be crude. If the crude methods showed up only in things such as "overthrowing the Confucian shop" as was done during the "May 4th" movement, or the mass criticism and repudiation during the late 1950's, the problem would not be a great one inasmuch as ideological one-sidedness can ultimately be corrected. However, when it is manifested in burning and destruction as was the case during the Great Cultural Revolution with the "destruction of the four olds," irreversible damage is caused. The Great Cultural Revolution has been thoroughly repudiated, yet its pernicious influence has not been eliminated from everyone. Therefore, at a time when bourgeois liberalization runs rampant, some of the "elite" in western garb completely deny traditional culture. Because they have partaken of milk and bread, they turn around and revile their mother's milk as being so unclean, never thinking about the nurture that this milk provided them. The suffering that traditional culture sustains is rather grave because the "elite" has made up its mind to discredit it completely.

Of course, those who would completely discredit traditional culture are an extremely small minority, and they cannot succeed. Nevertheless, the predicament of traditional culture is not a pretty one, with numerous problems urgently requiring solution. Below, an effort is made to list some phenomena:

First, education in the motherland's history has not received serious attention for a very long time; it has become the weakest link in the regular education system. Never mind even mentioning gaining an understanding of history and experiencing history through other avenues.

Second, positive and healthy things that are part of popular tradition and customs have not been used to full advantage, while odious things, such as feudal superstition, are everywhere running rampant even to the point of becoming a disaster.

Third, the motherland's rich and exquisite language is frequently used incorrectly, the historical and cultural content and the emotional feeling capsulized in words and phrases, idiomatic expression, and various forms of expression are increasingly not understood, while filthy language, mispronunciations, as well jokes such as referring to other people's parents familiarly and using terms reserved for one's own family appear regularly in the press.

Fourth, precious cultural artifacts have been pilfered or smuggled, and scenic spots and historical sites have been damaged or debased. Though the former actions can be dealt with by judicial organs, the latter kind can be addressed only by raising the cultural quality of the

perpetrators. Newly manufactured fake antiques or repainted scenic and historical sites cannot evoke a profound historical association or historical feeling in the beholder. Having some people dress in "ancient robes" to perform various vulgar roles in order to sell more tickets is even more despicable.

Fifth, traditional culture and handicrafts are not appreciated. Today, not just Beijing opera, but even Kunqu opera [which is more melodic and less structured than Beijing opera] is in danger. One might say that, except for calligraphy and painting, which alone continue elegant, all other traditional arts are in a very depressed state. Even exquisite works of classical literature are no longer of interest to many people, and their social influence is increasingly on the wane.

Sixth, the tremendous repository of classical literature is not being researched and systematized. The corps of experts engaged in such research and systematizing is becoming increasingly old, and the lack of successors looms increasingly serious.

In order for the role of traditional culture to be used to the full to uplift and nurture patriotism and national spirit, various problems in the development of traditional culture should receive full attention from all. The Party and the government should take firm hold of this task as an important part of the building of spiritual civilization so as to nurture the good and dispel the evil to enable the essence of traditional culture to shine forth.

### National Pride, Patriotism Urged

900N0265B Beijing QUNYAN [PUBLIC TRIBUNE] in Chinese No 12, 7 Dec 89 pp 7-8]

[Article by Zhang Dainian (1728 1486 1628): "Carry Forward the Patriotic Tradition; Oppose National Nihilism"]

[Text] The patriotism of the Chinese people has a long historical continuity. From the Spring and Autumn Period [770-476 BC] until the Ming and the Qing dynasties [ending in AD 1911], patriotic thinking was manifested in distinctions between the Chinese and the barbarians. The concept of distinguishing between Chinese and barbarians began with Confucius. A passage in the Zuo Chuan dated the 10th year of the reign of the duke of Ding said, "The barbarians do not disturb the Chinese," meaning that both the Chinese and minority peoples such as the Rong and the Di guarded their own boundaries, and did not encroach upon each other. Confucius extolled Guan Zhong's counterattacks against the Di from the north who invaded Xing and Wei, saying, "To this day people enjoy his bounty. Credit goes to Guan Zhong for having resisted the expansion of Zuo Ren." Confucius believed that Guan Zhong had made an enormous contribution to the safeguarding of Chinese civilization.

Passages about "distinctions between the Chinese and the barbarians" applied primarily to the conflicts among

peoples within the country. The battle in which Liu Kun's grandfather, Di, safeguarded the political power of the Han people during the period of the eastern and western Jin; the battle in which Zongze and Yuefei opposed the invasion of the Jin troops during the period of the northern and southern Song dynasties; the battle in which Wen Tianxiang and Lu Xiufo opposed the Yuan army's destruction of the Song dynasty during the period when the Yuan was fighting to overthrow the Song Dynasty; and the battle in which Huang Zongxi, Gu Yanwu, and Wang Fuzhi opposed the Qing during the period when the Qing was striving to overthrow the Ming Dynasty were all historical battles to safeguard the sovereignty of the Han race that are imbued with patriotic significance. Today these battles are regarded as battles among peoples within the Chinese empire, but, at that time, conflicts among different nationalities were very intense and were of crucial importance. That persons possessing ideals and integrity among the Han people rose to safeguard the sovereignty of the Han race when the Han was in the position of the party against whom aggression was being committed is beyond doubt. (Some scholars who publicize distinctions between the Chinese and the barbarians demonstrate a tendency to look down on the minority peoples, which is a mistake; however, they do not approve of aggression among fraternal peoples, but rather advocate the peaceful coexistence of all peoples.)

Following the Opium War, when China was subjected to aggression from a number of foreign powers, the situation was vastly different. Patriotic persons of ideals and integrity of all nationalities, and the broad masses of people rose up to oppose foreign aggression, and the intensity of their patriotism was particularly stirring. The resistance to imperialist aggression, the bloody battles, the advancing wave upon wave, the staunch and unyielding valor, and the fervent patriotism of the Chinese people from 1840 to the War of Resistance Against Japan deserve to be extolled and respected forever.

The 100-year battle to save the nation from extinction that lasted from 1840 until the 1940's demonstrated that only socialism could save China. This is a truth that history has proved. We are now in the process of socialist modernization, which is the practice of patriotism today.

In recent years an ideological trend of national nihilism has appeared in which "oppose tradition" has become a fashionable slogan, and that holds that nothing in the motherland is of value or desirable. Some people even maintain that in traditional Chinese civilization "real people could not sprout and grow," meaning that the Chinese are not "real people" at all. Worse yet, some people proclaim that the Chinese people belong to an inferior race. This is a national capitulationist enslavement mentality, which completely casts aside the patriotic tradition. It forgets the heroic battles of the past 100 years in which the Chinese people opposed foreign aggression, and it is willing to knuckle under to foreign powers to become the slaves of developed Western countries. Such utterly preposterous, contemptible, and

shameless nonsense has become rampant during the past two or three years. This is shocking, and merits reflection and reexamination. It shows that ideological education in patriotism has been too weak in recent years.

Given the situation today, carrying forward patriotic ideology, and opposing all national nihilism and a national capitulationist enslavement mentality is entirely necessary.

### **Tradition, Patriotism 'Complementary'**

90ON0265C Beijing QUNYAN [PUBLIC TRIBUNE] in Chinese No 12, 7 Dec 89 pp 8-9

[Article by Ji Xianlin (1323 5029 2651): "The Patriotic Tradition of China's Intellectuals"]

[Text] Traditional civilization and patriotism appear unrelated. However, putting aside other countries for the moment, and talking only about China, the two are extremely closely related. This statement holds meaning at two levels, as follows: At the first level, patriotism holds an extremely important position in traditional Chinese civilization or, to narrow the purview somewhat, in the traditional Chinese ethic. At the second level, it is simply because China has a dazzling traditional civilization that we should and must love our country.

Let us talk about the first level of meaning first. I will talk in terms of history. Events prior to the Qin dynasty are vague and difficult to analyze; they will not be discussed here. The Qin dynasty general, Meng Tian, was extolled by his contemporaries and by succeeding generations for his feats in repelling the Xiongnu. In the Han dynasty, Han Wudi's great generals, Wei Qing and Huo Qubing, were also praised by both their contemporaries and succeeding generations for their feats in repelling the Xiongnu at an early age. Su Wu, who was held by the Xiongnu for almost 20 years, during which time he remained faithful and unyielding while tending sheep along the northern coast, remains forever hailed today in novels and plays. Zhuge Liang's loyalty to the Kingdom of Shu during the period of the Three Kingdoms has been acclaimed since ancient times. I must make some explanation here. I seem to hear some people asking: Can one consider Zhuge Liang's deeds patriotism? My answer is yes—unalloyed patriotism. What is meant by the word "country?" In ancient times there was an ancient concept, and today there is a modern concept. Wei, Shu, and Wu were the three "kingdoms," otherwise, why would the "Romance of the Three Kingdoms" that is known in every household throughout the land be called the "three kingdoms?" For a long time in the past, some people in the historical field practiced metaphysics even to the point of not daring to say that resistance to the Xiongnu was patriotic, inasmuch as the Xiongnu were progenitors of various nationalities within the People's Republic of China today. In today's terms, this may be correct; but in ancient times there were two different countries. How can we force today's conception on ancient history? My explanation can and must be

applied to Chinese history after the three kingdoms. For example, the Song dynasty's Yang Jiajiang shines forth to this day in drama and literature. As for Yue Fei and Wen Tianxiang, they are even more loyal hearts shining through the pages of history. They are forever famous and known to all. Today, a temple to Yue Fei that stands on the bank of the Xizi Hu has become a sacred site at which people from all over the country and throughout the world pay homage. All this merits our profound thought. When I say that traditional Chinese civilization and traditional Chinese ethics contain a powerful patriotic component, is this not a fact?

Now let us turn to the second level of meaning. The reasons that a country is beloved and must be loved are numerous. As applied to China, going from love of our great traditional civilization to love of country is a logical progression. I have always maintained that among the great family of man, civilization is everyone's common creation. Every country, no matter large or small, and no matter whether it has a long or a short history has made a contribution, to one extent or another, to mankind's common cultural treasury. At the same time, however, it must be recognized that the contribution varies between one country and another, and between one people and another. China, which began on the continent of east Asia, has existed for thousands of years; the numerous inventions of our ancestors are crowned with eternal glory, and people have enjoyed their benefit right up to modern times. I believe that, except for those who advocate "across-the-board Westernization," whenever the Chinese talk about their own civilization, they cannot help but experience a feeling of pride. Naturally, China cannot and will not lie down on the glorious cultural tradition of its ancestors and fall into a deep sleep. We must continue to work hard for the prosperity of the country, using the old foundation to catch up with the new world. This point does not require great elaboration. In terms of patriotism, should not and does not a country with such a cultural tradition deserve to be loved?

During the past several years, I have frequently thought about China's intellectuals and patriotism. I have come gradually to realize that China's intellectuals (and naturally that includes working people) are the world's most patriotic intellectuals and the world's finest intellectuals. The traditional civilization discussed above is only one of the reasons for this; modern history offers other reasons.

Ever since 1940, China has suffered oppression and exploitation at the hands of colonialism and imperialism. The intellectuals have been most sensitive to this and, consequently, they have fostered a patriotic tradition. Although intellectuals in colonial and imperial countries have patriotism too, this patriotism cannot stand the test; at crucial moments, they immediately "submit themselves to whoever will suckle them."

I think that China's intellectuals may be divided into three categories by age: the old, the middle-aged, and the young. The old intellectuals lived in the old society, and



very many of them have lived abroad. They have a deep knowledge, based on their personal experience, that when a country is not strong, it is inevitably looked down upon. Consequently, the patriotism of this group of people is particularly strong. Following the founding of New China, although many of these people sustained criticism and a majority were subjected to inhumane treatment "unprecedented" in any age, they remain as patriotic as always. The phrase "fine wares at a low price that remain durable for a long time" applies to this group of people.

The middle-aged intellectuals did not suffer the oppression of the "three big mountains" [imperialism, feudalism, and bureaucratism]. They received nurture from traditional civilization, and are also patriotic. Today they are working hard to serve the motherland.

Young intellectuals did not suffer foreign oppression at all. All they know about events before liberation has come from books or from the mouths of older people, so their impression is hazy. Telling them about patriotism is easy in theory, but difficult in fact. Today's college students belong in this category. When education in patriotism is given, they should be the focus. We should think of more methods in this regard. Talking to them about traditional civilization and about history might be an effective method, it seems. In short, I believe that traditional civilization and patriotism are closely related and complementary. Both have to be talked about more.

#### **Patriotism 'Pillar' of Ideology**

90ON0265D Beijing QUNYAN [PUBLIC TRIBUNE] in Chinese No 12, 7 Dec 89 pp 9-11

[Article by Chong Jingwen (6988 2417 2429): "Devote Attention to the Pillars of National Spirit"]

[Text] A nation or a country is a huge (or comparatively huge) community of people in which the members seek to survive or even to expand. They must organize (or act independently) to engage in material production and spiritual production. This community of people is by no means isolated in the world. Like every family, people or nation, it has its own neighbors—the other peoples and countries that exist along with it. Relations among peoples and countries may be friendly, or they may be antagonistic. In the latter case (antagonistic), members of the community have the duty of defending the community or even of going to war. This is patriotism. Naturally, in a broad sense, the term patriotism should also include both the ideas and the activities of members of the community that strive to advance the society and the culture of the people and the country.

Strictly speaking, patriotism is an outgrowth of contemporary society. It was an accompaniment to nationalism in a number of industrialized countries following the rise of capitalism in Europe, and it is also a spiritual weapon that numerous peoples subjected to aggression used in the battle to rid themselves of enslavement. However, to trace it back to its origins, the history of the sprouting

and growth of patriotic thinking and actions is fairly ancient. During the period when groups of people had not yet formed themselves into clans or tribes, members of the community committed themselves to bloody battles and attendant conscious activities in defense against neighboring enemies. For the sake of the safety and the development of the community, the ideology of the groups had to be handed down from generation to generation, becoming the cherished heritage of the tribes, and the country's (early period) collective spirit, even though such an all-inclusive term as patriotism did not exist at that time. This has been testified to in numerous people's histories and anthropological records. China (the Chinese nation) was a country that became civilized fairly early in the history of the world; it was also a country with a vast territory and many people and nationalities. Over the long course of history, our Chinese nation was a nation that amalgamated numerous tribes and peoples, and it was also a people that suffered the invasion and harassment of surrounding people and "resorted to arms." For this latter reason, not only did patriotic ideas and actions sprout and grow among its members, but a solid tradition was formed as historical development and objective circumstances required. This was expressed not only militarily and politically, but also in various cultural activities (such as philosophy, ethics, literature, the arts, and all sorts of historical relics.) They became pillars of the national spirit.

In China's modern history, patriotism has been manifested markedly and continuously. In the campaign to ban opium, the Westernization movement of the 19th century, the reform movement of 1898, the Boxer movement, and the revolution of 1911, to one extent or another, patriotic elements existed openly or in secret. The eight-year-long War of Resistance Against Japan was even more an expression of the patriotism of all the people. This also showed what a wondrous power this cherished national heritage of patriotism possesses!

Today we are building a distinctively Chinese socialist country. The current international situation has eased from what it has been; nevertheless, the hidden dangers of international conflict have not been fundamentally eradicated. Now that we have come to a time of "peace when dangers cannot be forgotten," about which the ancients warned, we must devote our main energies to the building of the domestic economy and the building of spiritual civilization. Fulfillment of this task will require more education in patriotism during the period of socialism. This can support the orientation, encourage zeal, consolidate unity, and eradicate decadence, thereby making attainment of our goals possible within the anticipated period of time.

One of the first problems confronted in carrying forward patriotism during this new period is how to handle traditional national culture. For some time in the past, some comrades in academic circles adopted an indiscriminating attitude of ignoring national traditional culture. Such an attitude is undesirable, I feel. No country



or people can get rid of cultural traditions lock, stock, and barrel that countless generations of ancestors created, enjoyed, and left behind, simply because they want to create a new social system and a new culture, and then create a new system and a new culture in a vacuum or completely copy the social system and culture of other countries or peoples. Such ideas are mistaken and cannot be realized.

We have to discriminate dialectically and make choices about traditional culture. Such a chosen and improved traditional culture will become an organic part of a new cultural system, which will continue to perform its social function. Naturally, much of traditional culture is washed away by the huge waves of the times; however, not all of it by any means. We need only acknowledge the fact that the *Analects of Confucius*, the *Songs of Chu*, the *Disquisitions of Wang Chung*, and the *Collected Poems of Li Taibo* may still be found on scholars' desks. Not all ancient culture is moribund; that some of it has more enduring vitality than modern works should not be so astounding.

We must create a new culture, and we must have something to rely on and to use as a reference for doing this. The critical absorption of the traditional culture of peoples of the past (some of which requires transformation) is such a reliance. Foreign culture may be used as an example and developed in a goal-oriented and discriminating way. This is a reference. The opposite of this attitude is to condemn Chinese traditional culture without distinction and to copy foreign culture uncritically, neither of which is in keeping with materialist dialectics, and both of which are harmful to the nurturing of a new concept of patriotism for citizens in society.

Ours is a socialist country that emphasizes proletarian internationalism. However, in proceeding from realities, we not only cannot weaken, but rather we must strengthen patriotism, because it is a pillar of our national ideology, and it is a powerful support that enables us to achieve true victory in the social transformation that we are carrying out.

### Socialism, Patriotism Seen Linked

90ON0265E Beijing QUNYAN [PUBLIC TRIBUNE] in Chinese No 12, 7 Dec 89 pp 10-11

[Article by Tang Tao (0781 1718): "Educate Youth in Patriotism"]

[Text] In *On a People's Democratic Dictatorship*, Comrade Mao Zedong said, "When people get old they die, and so will the party. Once classes have been wiped out, all the things, political parties, and state machinery that serve as tools of class struggle will lose their function, will not be needed, and will gradually wither away, their historical mission completed, and human society will go on to a higher level. Ours is just the opposite of bourgeois political parties. They fear the annihilation of classes, the annihilation of state power, and the annihilation of

parties. We declare openly that it is for the creation of conditions enabling the annihilation of these things that we struggle. The leadership of the Communist Party and state power founded on the people's democratic dictatorship are these conditions." This is in keeping with the dialectical analysis of the laws of objective development. It takes courage to make such an open analysis; one must possess astonishing daring and resolution. I would like to add a point, namely, that progressive political parties bent on revolution should have such an understanding and dare to acknowledge these truths.

So long as reactionary political parties in which the big bourgeoisie form the leadership nucleus exist in the world, and so long as countries exist in which hegemony and imperialism are the guiding thought, the Communist Party must build a political party, seize authority, and hold fast to the state machinery. Moreover, during this period (which make take several hundred years or as much as a thousand years), people must value the leaders of the well-founded political party that is able to uphold the correctness of the objective laws of development and the authority of the state machinery that is able to persevere in the implementation of a people's democratic dictatorship, combining the two. In short, we must uphold patriotism—a patriotism that is unflaggingly pursued during this stage for the ultimate annihilation of political parties and the state. The reason is easy to understand, yet some people say they do not understand it, or they do not want to understand it, or even purposely pretend not to understand it.

I feel it understandable that young people do not sufficiently understand this point, because they have no real experience and they have not personally experienced the days of tangled warfare between reactionary regimes and warlords when the people could not make a living. They cannot profoundly perceive the importance in a class society of rule by a progressive political party and a powerful state machinery in guaranteeing conditions for people's survival. Thus, their understanding of patriotism is rather muddled and hazy. A strict distinction should be made between them and those who have had personal experience of such things, yet do not stand for love of country, and who adopt a nihilistic attitude toward the nation's history. In an earlier period, some people took statements out of context and forged ahead rashly to say that Hu Shih advocated advocated complete Westernization, or even that Lu Xun also advocated complete Westernization. I have already refuted this in writing. Today, some people say that Lu Xun favored the great harmony of mankind, and did not stand for patriotism, as evidenced by a letter to Xu Shoutang dated 20 August 1918. Let us examine the content of this letter. The letter spoke about some colleagues who, in an effort to resolve bigamous disputes, lured their second wives to other parts of the country where they sold them into houses of prostitution, and then said with indignation, "Such actions might be said to be an rarity in human society, and extremely animal-like. What good fortune that it is

sanctioned by the Ministry of Education! Nothing looks promising in the whole country, but Pu's ideas have changed somewhat, so he is not at all pessimistic. As for the idea of a nation-state, its stupidity is in the same category as provincial boundaries. For mankind as a whole, if China could be reformed, this would represent progress for mankind (provided a country such as this is still capable of being reformed.) Should the country perish, that would also provide a boost for mankind, because for a country such as this not to be able to survive would be a mark of human progress. Humanitarianism will probably triumph in the end, and although China will not change and it will want to remain in servitude, others will not want slaves. Thus, although it may long to show obeisance, it may find no masters to serve, becoming utterly disappointed. If this goes on for several generations, the urge to perform obeisance and kowtow will gradually fade away, and this is the reason that Pu is pleased." It is extremely evident that the letter contains many ironies; it is completely indignant. Luxun's statement that "the idea of a nation-state is a stupidity in the same category as provincial boundaries" is basically identical with the concept that Comrade Mao Zedong expressed in *On a People's Democratic Dictatorship*. Annihilation of political parties and annihilation of the state in a class society require rule by a progressive political party first, and a powerful and prosperous state machine in order to stand up to and eradicate the oppression of reactionary political parties and hegemonistic aggression. This is what we mean when we speak about internationalism having to be linked to patriotism. Lu Xun profoundly understood this point. When he went to Japan to study, he originally intended to enter Chengcheng [2052 1004] School to study for the Army, but later he entered the Sendai Medical School to study medicine. Later, he gave up the study of medicine to take part in the literature and arts movement out of consideration for the needs of the race and the country, and for love of country. Xu Shoutang has said that when he and Lu Xun were studying in Japan they would frequently become upset in the strange land and cry together, thus showing Lu Xun's patriotic feelings at the time, which remained unchanged when he became old and even until death.

I also believe that not only should internationalism and patriotism be linked, but that socialism and patriotism should also be intertwined. Subsequently Lu Xun became a nonparty Bolshevik because he had hunted high and low, finally finding socialism. He believed that only socialism could save China and build China. His belief in socialism was one manifestation of his patriotism.

That young people do not have the experience with real life of former generations is an objective fact, but they should study history, particularly modern history, which brims with the tears and the blood of the Chinese people.

## Writers, Artists Study Deng Book, Related Materials

### Forums Held in 4 Places

90ON0363A Beijing WENYI BAO in Chinese  
6 Jan 90 p 1

[Article: "Writers in Guangdong, Hunan, Liaoning, Guangxi Organized To Study *Deng Xiaoping on Literature and Art*"]

[Text] The Guangdong branch of the China Writers Association recently held a forum on studying the book *Deng Xiaoping on Literature and Art*.

The writers concluded that Comrade Deng Xiaoping's theory on literature and art comprehensively defends, carries on, and develops Marx's and Lenin's theories on literature and art and Mao Zedong's thought on literature and art. It is a guiding policy that enriches and develops China's socialist literature and art, and is also a powerful weapon at present for criticizing bourgeois liberalization and mistaken ideas of every description. We should, in general, understand and grasp completely, comprehensively, and correctly Comrade Deng Xiaoping's thoughts on literature and art and turn it into conscious actions by writers and artists to enrich socialist literature and art, to create rich works that the broad masses love, and to open up a brand-new situation in the nineties in Guangdong's literary world.

Attending the forum were a little more than 40 persons from literature and art circles and journalist circles, including Chen Canyon [7115 2995 0061], Cai Yungui [5591 6663 2710], and Chen Guokai [7115 0948 0418].

Literature and art circles in Hunan Province have vigorously organized literature and art workers to study Marxism-Leninism and Mao Zedong Thought. Recently the leading party group in the Hunan provincial branch of the All-China Federation of Literature and Art Circles held an all-province literature and art circles' winter book-reading meeting, and the leading party group of the Hunan Provincial Culture Department also held a study forum for creative personnel. In all, more than 100 persons took part in this study.

In these two study activities, the attendees concentrated on using four and seven days, respectively, on the study mainly of *Deng Xiaoping on Literature and Art*, "Talks at the Yanan Forum on Literature and Art," as well as the spirit of the 4th and 5th Plenary Sessions of the 13th CPC Central Committee. Summing up the situation in the development of literature and art in Hunan Province over the past 10 years, they held thorough discussions.

Comrades at the meeting and the forum concluded that, since the founding of the PRC, particularly in the last 10 years, the Hunan literature and art circles, under the guidance of the party's line on literature and art and under the leadership of the provincial party committee, have obtained successes that have been the focus of

people's attention. However, because of the influence of bourgeois liberalization and the inroads of the money worship that has appeared in society, a small number of literature and art workers have become indifferent to their ties to the masses of people. There is not much of that kind of action done with all one's might that has a strong flavor of the times, is filled with enthusiasm, sings the praises of modernization, and is manifested in the new man of socialism. But there is a lot of low behavior, such as evading reality, being divorced from the times and the masses of people, and even recklessly concocting and irresponsibly making things up. To a certain degree there has been a deviation from the direction of the "two actions."

Everybody concluded that the party spirit principle in literature and art must be reaffirmed, the study of Marxism-Leninism and Mao Zedong's thought on literature and art must be enhanced, and the sense of social responsibility and of historical mission on the part of the broad masses of literature and art workers must be constantly strengthened.

The Hunan party committee attached great importance to the literature and art workers' studies, and it sent leading comrades separately to take part in these two study activities and make speeches.

In Liaoning Province, some young and middle-aged writers recently concentrated on studying and discussing the changes in the internal and external environments of literature and how to adapt to these changes.

During the study and discussion, everyone indicated that he wanted to adapt to the changes in the overall climate and maintain a good creative attitude. Of first importance is to keep firmly in mind the "one center and two points," uphold the four basic principles, oppose bourgeois liberalization, and truly make the cause of literature a part of the cause of socialism. The people's writers must breathe the same air and share the same fate as the people. True artists should go into the midst of life and be affected by the people's joys and sorrows. For this reason, the writers' sense of responsibility and sense of mission should be particularly stressed. Writers must be responsible to themselves, to the country, and to the nation.

Everybody agreed that in the past several years in Liaoning Province there had been a tendency for literary creation to be steadily on the rise. To create excellent works worthy of the name of the epoch and worthy of the name of the people, to create works that have a healthy content and that are also able to touch the people's hearts and are loved by the broad masses, more arduous work must be done.

Everybody concluded that at present particular stress must be put on learning well *Deng Xiaoping on Literature and Art*, propagating the main melody of literary and artistic creation, and providing elegant spiritual food for the masses of people. Jin He [6855 3109],

chairman of the Liaoning branch of the China Writers Association, presided over the study and discussion meeting.

The Propaganda Department of the Guangxi Zhuang Autonomous Region CPC Committee recently held a meeting that called for the ideological and cultural front, particularly the literature and art circles, to conscientiously study and propagate the work *Deng Xiaoping on Literature and Art*.

Zhang Yang [1728 3152], deputy director of the Propaganda Department, said at the meeting that Deng Xiaoping's exposition on the question of literature and art is an inheritance and development of Marxist theory on literature and art, and is a new component part of Mao Zedong's thought on literature and art. It must be integrated with criticism of the fallacies of bourgeois liberalization. In the study of it, confused understanding in ideology and theory must be further cleared up, the problem of direction solved well, and the problem of enhancing and improving the party's leadership over literature and art solved well.

Zhang Yang also pointed out that, in the course of the study, the writers can, through the forms of study classes, discussion meetings, and forums, organize their forces to write a number of in-depth articles. The ideological and cultural front, particularly the literature and art circles, must, on the basis of conscientiously learning well *Deng Xiaoping on Literature and Art*, further unify understanding, better uphold the direction of the "two actions" and the policy of the "double hundred," and constantly create excellent literary and artistic works and demonstrate artistic results worthy of our great people and our great epoch.

#### Yunnan Military District Forum

90ON0363B Beijing WENYI BAO in Chinese  
6 Jan 90 p 1

[Text] The Yunnan Military District recently called together writers and artists to hold a forum on literature and art theory at which they were to sort out and criticize the influence of the ideas of bourgeois liberalization in the domain of literature and art. During the discussion the attendees stressed that there must be a correct understanding of the relationship between opposition to bourgeois liberalization and the upholding of creative freedom, in order to clear up some confused understanding about creative freedom.

The attendees said that in the previous period some people, on the pretext that creation requires freedom, repudiated the party's leadership over literature and art work. Everybody, relating it to his own creative practice, applied the viewpoint of the Marxist theory on literature and art in analyzing and criticizing the mistaken viewpoints of the previous period that were current in society, namely, that "the party must not control literature" and "the 'Talks at the Yanan Forum on Literature and Art' are already passe." Everybody concluded that,

since the 3d Plenary Session of the 11th CPC Central Committee, the party had corrected in its policy on literature and art the past mistaken practices of the "left," and had given the writers and artists creative freedom to the greatest extent. However, a small number of people still felt dissatisfied and thought that their craving had not been met. They said that the party's leadership must be abolished completely and that there must be so-called "absolute freedom." In essence, they wanted literature and art creation to cooperate with the bourgeois politicians of the West in carrying out the "freedom" of the peaceful evolution strategy toward China, letting literature and art creation "freely" undertake the mission of changing China's "color." This point was clearly confirmed in word and deeds by individual scum of the literature and art circles during the counter-revolutionary rebellion that occurred in Tiananmen. From the height of theory many comrades expounded the idea that the party must, in the micro aspects, strengthen its leadership over literature and art, and they demonstrated that the correct policies on literature and art formulated by the party are the only true "spring-time" for the literature and art circles.

For five years now the Yunnan Provincial Military District has emphasized getting a grip on the work of upholding the direction of socialist literature and art, and in literature and art creation has obtained spectacular successes in this respect, receiving more than 130 instances of all-China and all-PLA class and all-province class awards for literature and art creation.

### Hebei Discussion Meeting

90ON0363C Beijing WENYI BAO in Chinese  
30 Dec 89 p 1

[Article by Zhang Yugui (1728 7183 6311): "Concentrating Efforts on the Study of Marxist Theory on Literature and Art, Hebei Holds Discussion Meeting on the Study of *Deng Xiaoping on Literature and Art*"]

[Text] On 19 December the Propaganda Department of the Hebei Provincial CPC Committee and the provincial branch of the All-China Federation of Literature and Art Circles held a discussion meeting for literature and art circles to study *Deng Xiaoping on Literature and Art*. Nearly 50 figures from Hebei's literature and art circles attended.

After analyzing all sorts of chaotic phenomena that have appeared on the literature and art front in recent years, the attendees came to further understand that if ideological and theoretical building is slackened in the literature and art ranks then literature and art cannot uphold well the direction of the "two actions" and the policy of the "double hundred." Without correct political ideology, writers and artists cannot create excellent works that reflect the "classical notes and pitches" of the new melody of the spirit of the times. After the "turmoil" and "rebellion" at the juncture of spring and summer this year were put down, the publication and distribution of

*Deng Xiaoping on Literature and Art* without a doubt gave the literature and art circles a "fall of sweet dew." Everybody unanimously held that, in line with the basic principles of Marxism, Deng Xiaoping's series of scientific and creative summations and expositions that integrate China's national condition with the new situation, new problems, and new demands on the literature and art front in the new period are an enrichment and development, under the new historical conditions, of Marxist theory on literature and art and Mao Zedong's thought on literature and art.

In what respects does *Deng Xiaoping on Literature and Art* carry on and develop Marxism and Mao Zedong's thought on literature and art? Zhou Shenming [6650 3947 2494], standing deputy director of the Propaganda Department of the Hebei Provincial CPC Committee, delivered a long statement on this question. He discussed, from the angle of the four natures—strategy, succession, principle, and theoretical guidance—*Deng Xiaoping on Literature and Art*, concluding that this work is a brilliant model of upholding and developing Marxist theory on literature and art and Mao Zedong's thought on literature and art. He said that the key to learning well *Deng Xiaoping on Literature and Art* is understanding the core meaning of "the people are the masters of the literature and art workers." *Deng Xiaoping on Literature and Art* must be used as an ideological and theoretical weapon to resolutely oppose bourgeois liberalization and to promote a greater flourishing of socialist literature and art.

The figures from literature and art circles who took part in the discussion meeting, integrating the understanding gained by their study of *Deng Xiaoping on Literature and Art*, explored a series of questions, including the relationship between literature and art and politics, the relationship between creation and life, the relationship between literature's and art's economic results and their social results, as well as enhancement of the main melody of literature and art during diversified development.

### LIAOWANG Criticizes Liu Binyan's Attitude

HK1901074990 Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese No 2, 8 Jan 90 p 8

[Article by Yuan Yang (6678 3152): "What Are Liu Binyan's 'Thoughts and Feelings About the Mainland?'" ]

[Text] Recently, Liu Binyan made an "eagerly anticipated" visit to Taiwan. During the two-week visit, he visited and viewed various aspects of Taiwan's construction and held two discussion sessions with people from various circles. Virtually every day he published newspaper reports on his "Taiwan impressions" and he ended his Taiwan visit with a final speech entitled "Thoughts and Feelings About the Mainland and My Impressions of Taiwan."

What was it that Liu Binyan was "eagerly anticipating"? What were his "thoughts and feelings on the mainland"?



People only have to understand a little about the background to his trip and do a little analysis of the opinions he expressed after the visit, and then they will not find it difficult to answer these questions.

One year ago, Liu Binyan, who was lecturing in the United States in his capacity as a writer and journalist, published "Desire To Visit Taiwan." However, at that time the Taiwan authorities did not invite him. As far as Liu Binyan was concerned, this really was a case of "although not able to go, his heart longed to go." After the 4 June incident in 1989, the opportunity Liu Binyan had longed for arrived. The Taiwan authorities intensified their "political infiltration" and "political counter-offensive" against the mainland, and Taiwan's "Interior Ministry" allowed "persons involved in the mainland democratic movement" to go and visit Taiwan. The relevant departments of Taiwan drew up a namelist of "persons involved in the mainland democratic movement" who were overseas and who would be invited to visit Taiwan. Liu Binyan was among the names on the list. This was not without reason. After the 4 June incident, Liu Binyan had repeatedly published anticommunist and antipeople opinions, and had thus put himself in the good graces of the Taiwan authorities. In the minds of the Taiwan authorities this naturally made this journalist and author a tool for carrying out a "political counterattack" against the mainland.

The Taiwan authorities' approval of Liu Binyan's entry into Taiwan after the dust had settled following three elections for "public officials" was a considered move. This was because the vote-buying activities, the violent scenes, and the wild activities of the Taiwanese independence forces during the electoral period would not have left a good impression on people visiting from abroad. Liu Binyan was a guest there, and was, of course, accorded with the hosts' arrangements. However, it is not known whether, as a reporter, Liu Binyan regretted that he had not visited Taiwan when it was implementing "democratic politics" and thus had missed an opportunity to "study Taiwan's experiences."

The speeches made by Liu Binyan in Taiwan allowed people to see clearly that his so-called "thoughts and feelings about the mainland" were actually a wanton smearing of the 1.1 billion people of the mainland and an expression of deep-seated hatred toward the CPC and the mainland socialist system. Meanwhile, with respect to Taiwan, Liu Binyan did all he could to ingratiate himself with them.

Liu Binyan claimed that he wanted to go and look at Taiwan with the eyes of a "primary school student." Thus, it is not at all surprising that he directed his attacks at the CPC and at socialism.

The first day he arrived in Taiwan, he attacked the people of the mainland, saying that "no one considers

the affairs of the state to be their own affairs." In another discussion meeting, he said that, on the mainland, "the characteristics of human relations have been almost entirely lost," that "people have no feeling of belonging to their own state or society and even see these things as being hostile to them," and so on.

People remember that not long ago Liu Binyan said that, "through 30 years of trials and hardships, our people have become more sober-minded and more mature," that "they feel happy for all the bright things in life, but will not be intoxicated. They are anxious and worried about the dark side of life, but do not lose hope." Why are the views of the same Liu Binyan on the mainland and on the people of the mainland so divergent?

In the last few years, the huge ship of China has gone through some storms and some tests, and has eliminated all forms of interference and moved forward along the socialist road. Faced with difficulties and tests, the people of the mainland have roused themselves and manifested the outstanding characteristics and great breadth of spirit of the Chinese nation, whereby they are unbending, persistent, and dauntless, and continually press forward with indomitable will. Having undergone a baptism of blood and fire, the people of the mainland value even more the socialist system, which has been won at such a cost. The only ones who gloat over the mistakes and difficulties that have appeared on the Chinese people's road of advance are a small handful of reactionary forces at home and abroad. Liu Binyan's abuse of and attacks on the people of the mainland truly show his despairing and hateful "thoughts and feelings."

Liu Binyan's words and actions in Taiwan received the acclaim of the Taiwan authorities. CHUNG YANG JIH PAO ran a special editorial on his visit to Taiwan and commendingly noted that "his visit to the Taiwan base for recovering the mainland should play a positive role." However, at the same time, some people in Taiwan also pointed out that Liu Binyan had been "played with by the Kuomintang." People of insight feel that Liu Binyan has neither the "strength of character of a Chinese intellectual" nor "an independent character," and thus can only play a negative role in the so-called "linking up and unifying of the Chinese people in China and abroad."

Liu Binyan has said, "In the court of history we have no right to sit in the public gallery. The people are the judges and the prosecutors. We must provide them with the documents." The people can plainly see from the words and actions of Liu Binyan on his visit to Taiwan, in which he vilified the people of the mainland by saying that "the characteristics of human relations have been almost entirely lost" and that "they have no feeling of belonging to their own state or society" and so on, and from his various disgusting anticommunist and antipeople speeches abroad, that Liu Binyan places himself in "the court of history," in the role of the accused.



## EAST REGION

### Shanghai Mayor Greet Taiwan Compatriots

*OW2801133190 Shanghai Voice of Pujiang in Mandarin to Taiwan 1000 GMT 26 Jan 90*

[Recorded New Year radio speech to Taiwan by Shanghai Mayor Zhu Rongji—date not given]

[Text] Dear Taiwan compatriots: How do you do? As all people of Chinese descent on both sides of the Taiwan Strait are celebrating the first Spring Festival of the 1990's, please allow me to wish all my fellow Shanghai townspeople now residing in Taiwan and all Taiwanese elders, brethren, and sisters a happy New Year on behalf of the 12 million citizens of Shanghai. Best wishes to you all for every happiness and good luck in the Year of the Horse.

I think the 100,000-plus Shanghai townspeople now residing in Taiwan and the other compatriots who have worked, conducted business activities, studied, and lived in Shanghai will want to know the present situation in Shanghai, just as we are concerned about the development and construction in Taiwan and about the living conditions of our Taiwan compatriots.

As the mayor of Shanghai, it is my pleasure to inform you that there are ample supplies of food and commodities on Shanghai markets, and that the city's people live in a stable environment thanks to the efforts of all Shanghai citizens. The projected objectives for various targets set for Shanghai's municipal economic development have all been attained over the past year. An appropriate growth rate has been maintained in industrial and agricultural production. Financial revenues have increased in excess of projected targets. The total value of foreign trade and exports has exceeded \$5 billion for the first time in history. New achievements have been scored in the efforts to integrate science and technology with production. Installation of the petrochemical facilities designed with an annual capacity of 300,000 metric tons of ethylene has been completed. Construction of a modern project capable of producing 1 million color video-display tubes has also been completed within a year. Aircraft, sedans, package facilities for electric power stations, and a batch of other first-rate high-technology products are taking the place of the products of the traditional handicraft industry to become the pillars of Shanghai industry. The 12 practical jobs that the municipal government planned to do for its citizens have been accomplished one by one over the past year. A number of large and modern pig farms, chicken farms, and vegetable production bases have been built in the suburban counties, thereby ensuring adequate supplies of nonstaple food to the urban areas. As a result, citizens have received considerable material benefits. The living standard of people in both urban and rural areas has improved to a comparatively great extent. The municipal housing units and transportation and communications facilities appear to have fallen short of

demand due to rapid population growth and a drastic increase in the number of vehicles in Shanghai in recent years. However, the progress of urban construction is rapid in Shanghai. In addition to the completion of more than 4 million square meters of newly built housing units and the widening and renovation of some scores of kilometers' of road in the municipality last year, the whole Shanghai-Jiading Expressway and the tunnel connecting highways on both sides of the Bund across Huangpu Jiang have been opened to traffic. Now people can travel from downtown Shanghai to Jiading County in slightly more than 20 minutes, and from the Bund to Pudong [the east bank of the Huangpu Jiang] and Lujiazui in slightly more than 10 minutes. All the telephone numbers in Shanghai were changed from the original six digits to seven digits last year. Program-controlled telephone sets have been installed in a number of areas. Communications in the municipality have been greatly improved; moreover, contacts with relatives and friends in Shanghai via telecommunications have been more greatly facilitated. At present, construction of a number of urban infrastructure projects utilizing foreign investment are underway. Construction of such large municipal engineering facilities as Shanghai's subway project, the Huangpu Jiang bridge, the Hongqiao Airport, and the international airport terminal have all been started. I am sure you are interested in hearing the above.

Shanghai used to be the economic and financial center of the Far East. Shanghai has been making efforts to succeed in achieving a rise during the past 10 years since the implementation of reform and the open policy. Shanghai took a comparatively big step forward in its opening to the outside world last year. As of the end of last year, 440 foreign firms and Hong Kong and Macao firms have set up permanent branch offices in Shanghai. The number of enterprises invested in and set up by foreign businessmen and by businessmen from Hong Kong, Macao, and Taiwan is 709. The overwhelming majority have succeeded in attaining comparatively good economic results.

The focal point of Shanghai's efforts to open its door wider to the outside world in the 1990's is speeding up the development of Pudong. Separated only by a river, the location of Pudong District is very close to the present center of Shanghai's downtown areas. Following the development of transportation facilities across the river and the construction of a new harbor in (Waigaoqiao), coupled with the fact that we are implementing a policy that grants more preferential treatment, Pudong District will become a new showcase for Shanghai's opening to the outside world and an ideal location for foreign business investment in Shanghai. We warmly welcome Taiwan compatriots to come to Shanghai and to visit Pudong for market surveys, investment, and establishment of factories. We will provide excellent conditions in all sincerity for compatriots visiting Shanghai.

The year 1989, which has just passed, was an extraordinary year for Shanghai. Taking advantage of this opportunity, I can tell you honestly that the situation in Shanghai is stable, that unity among the Shanghai people is now stronger than in the past, and that the Shanghai people now have more confidence in the future than before. I am sure you will not doubt the above if you come to visit Shanghai and see for yourself.

The Taiwan Strait cannot separate or cut the feelings shared between compatriots on both sides. Last year alone, as many as 160,000 Taiwan compatriots realized their long-cherished dream of returning to Shanghai to visit relatives. More than 360 Shanghai people traveled to Taiwan either to visit sick relatives and friends or to attend the funerals of their parents. The volume of mail between Shanghai and Taiwan is 5.5 million pieces. Contacts and cooperation between Shanghai and Taiwan in the spheres of economics, science and technology, culture, and sports are also being unfolded gradually. All this serves to show that it is already a historical trend that blood compatriots must be reunited and that both sides must cooperate in promoting economic development. We have every reason to believe that a bridge of reunification spanning the strait will surely be built in the near future through joint efforts by compatriots on both sides of the Taiwan Strait. We are bound to happily gather together under the same roof some day.

Thank you for listening.

#### **Party Leadership Over Mass Organizations Stressed**

*OW1302130390 Shanghai City Service in Mandarin  
2300 GMT 6 Feb 90*

[From the "Morning News" program]

[Text] The Shanghai Municipal CPC Committee called a discussion meeting of responsible persons of the municipal federation of trade unions, the municipal committee of the Communist Youth League [CYL], and the municipal women's federation on the morning of 6 February to study a circular of the CPC Central Committee on strengthening and improving party leadership over the work of the trade unions, the CYL, and the women's federation.

At the meeting, those present talked freely about what they had learned from the circular and exchanged their experiences in this regard. They unanimously held: The circular fully reflects the concern of the party Central Committee for the work of the trade unions, the CYL, and the women's federations and the importance it has attached to it. It also points out the direction for the organizational strengthening of the trade unions, the CYL, and the women's federations in the new period. This will certainly bring about a new development in the work of the trade unions, the CYL, and the women's federations.

Comrade Chen Zhili, deputy secretary of the municipal party committee, chaired the meeting.

In her speech at the meeting, Chen Zhili pointed out that this circular issued by the party Central Committee is an important document for guiding party committees at various levels in strengthening and improving their leadership over the trade unions, CYL organizations, and women federations.

She said the municipal party committee will adopt specific methods and measures to implement the circular according to its guidelines and Shanghai's actual conditions and on the basis of study and investigation.

She emphasized that mass work is an important part of the party's work. The party maintains close ties to the masses of people through various channels, including organizations of the trade unions, the CYL, and the women's federation. To strengthen the party's leadership over mass organizations is an important link in strengthening party leadership.

Organizations of the trade unions, the CYL, and the women's federation have performed their work under the leadership of the party since their coming into being, and they have developed with the development of the party's cause. The fundamental interests of the party and the mass organizations are identical. Historical experience proves that upholding party leadership is a basic guarantee for effectively performing the work of the trade unions, the CYL, and the women's federation.

Comrade Chen Zhili called on party organizations at various levels in the municipality to conscientiously study the circular of the CPC Central Committee on strengthening and improving party leadership over the work of the trade unions, the CYL, and the women's federation; to pay close attention to mass work; to strengthen their political leadership; and to vigorously support organizations of the trade unions, the CYL, and the women's federation in performing their work independently according to relevant laws and their respective constitutions.

Comrades at the meeting expressed many opinions and made a number of suggestions on ways to implement the guidelines set forth in the circular of the party Central Committee.

#### **Shanghai Holds Session on United Front Work**

*OW1602075890 Shanghai City Service in Mandarin  
2300 GMT 7 Feb 90*

[Text] The United Front Work Department of the Shanghai CPC Committee yesterday [6 February] held a meeting to relay the guidelines of the National Forum of Directors of the United Front Work Departments to the responsible persons of the democratic parties, mass organizations, and religious circles in Shanghai invited to the meeting.

Participants at the Shanghai meeting heard Mao Jingquan, head of the United Front Work Department of the Shanghai CPC Committee, relay the guideline of the

speech delivered at the national forum by Jiang Zemin, general secretary of the CPC Central Committee. Mao Jingquan pointed out that we must fully affirm the results of united front work in recent years. Under the new situation, we should increase our understanding of the importance of and need for united front work. United front work was and is one of the three magic weapons of the Communist Party of China; hence, we must upgrade, not downgrade, it. Party committees at all levels should strengthen their leadership over united front work. Party members should stress the work, attentively study and grasp the relevant documents and important speeches made recently by the central leading comrades on united front work, and strive to do well in the important task of upholding and perfecting the multiparty system under the leadership of the Communist Party of China and the system of political consultation.

#### **Jiangxi United Front Cadres Study CPC Multiparty Document**

*OW1902114390 Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 8 Feb 90*

[Text] The United Front Work Department of the provincial party committee today organized its personnel to earnestly study "Opinions of the CPC Central Committee on Persisting in and Improving the System of Multiparty Cooperation and Political Consultation Under the Leadership of the CPC," made public by the CPC Central Committee recently. The participants enthusiastically discussed the document in light of the actual situation in united front work in the province.

They said that the document was formulated in accordance with the guidelines of the 4th and 5th Plenary Sessions of the 13th CPC Central Committee and the instructions of Comrades Deng Xiaoping and Jiang Zemin on united front work. It sums up the successful experience and fine traditions in multiparty cooperation under the leadership of the CPC in the past 40 years, particularly since the 3d Plenary Session of the 11th CPC Central Committee, and puts forward concrete requirements for persisting in and improving the system of multiparty cooperation and political consultation under the leadership of the CPC. It is an important measure for advancing the restructuring of China's political system and strengthening the building of socialist democracy in China. It is a sharp weapon for opposing the call to implement in China the multiparty cooperation system of the West, opposing bourgeois liberalization, and opposing the peaceful evolution that international hostile forces wish to effect in China. It is a programmatic document for bringing all positive factors into play to safeguard the political situation in China and to guide the work of democratic parties in the years to come.

In studying and discussing the document, the participants recalled the history of long-term cooperation between the various democratic parties and the CPC in

the periods of the democratic revolution, socialist revolution, and socialist construction. They agreed unanimously that the system of multiparty cooperation and political consultation under the leadership of the CPC took shape and developed in the practice of long years of revolutionary struggles. The historical practice of revolution and construction in China has fully proved that the various democratic parties are close comrades-in-arms of longstanding who have gone through thick and thin with the CPC and are an important force for safeguarding stability and unity in China and for promoting its socialist modernization and reunification. The formulation of the document is extremely necessary to stabilize the pattern of multiparty cooperation under the leadership of the CPC, to bring into full play the characteristics and superiority of China's political system, to persist in and improve the political system suited to China's reality, to develop socialist democracy, and to strengthen the legal system.

After studying the document, the participants agreed that an important task for united front work at present and in the days to come is to conscientiously study, publicize, and implement the document. United front work cadres must first study and understand the document so as to advance the implementation of the system of multiparty cooperation and political consultation under the leadership of the CPC. United front cadres must inherit and carry forward the party's fine tradition and work style in united front work, forge close ties with people outside the party, enhance the trust of nonparty people in our party by setting good examples, raising the party's prestige, strengthening its attractiveness, and making greater contributions to the reunification of the motherland and the invigoration of Jiangxi.

#### **Shanghai CPPCC Supports CPC Multiparty Document**

*OW1802213490 Shanghai City Service in Mandarin 2300 GMT 9 Feb 90*

[From the "Morning News" program]

[Text] The publication of the "Opinions of the CPC Central Committee on Adhering to and Improving the System of Multiparty Cooperation and Political Consultation Under the Leadership of the CPC" was very timely and necessary. The document sets forth in an all-around way the status, nature, role, and function of China's democratic parties as well as their future historical mission. It is a programmatic document.

The above statement was unanimously voiced by the more than 100 members of the municipal committee of the Chinese People's Political Consultative Conference [CPPCC] who attended the first four-day spring seminar. After the transmission of the CPC document, members of the municipal committee attending the seminar held a group discussion of the document. They unanimously pointed out that the system of multiparty cooperation and political consultation is an important part of China's

socialist democracy, an important result of the reform of China's political structure, and a product of the integration of Marxism-Leninism with China's revolutionary practice. It is of immediate and historical significance and will inevitably have a major impact at home and abroad.

In their discussion of the document, the committee members repeatedly pointed out that the document stipulates explicitly that the system of multiparty cooperation and political consultation under the leadership of the CPC is China's basic political system. It makes clear the status of the democratic parties in participating in the political process and affirms that the democratic parties are an important force in safeguarding China's stability and unity and promoting socialist modernization and reunification of the motherland. At the same time, it creates, by means of specific rules and regulations, a favorable political environment for the democratic parties to participate in political and government affairs and to bring into play the role of democratic supervision. This will undoubtedly serve to boost the morale of the democratic parties.

The members also said that the whole Communist Party will definitely attach great importance to implementation of this extremely important Marxist-Leninist document. Conducting political consultation and democratic supervision on a regular basis will also be truly institutionalized.

#### **Shanghai People's Congress Committee Opens Session**

*OW2502005590 Shanghai City Service in Mandarin  
1000 GMT 13 Feb 90*

[Text] The 15th meeting of the Ninth Municipal People's Congress Standing Committee opened this afternoon.

Chairman Ye Gongqi presided over the meeting.

Qi Naikuan, member of the Legislative Affairs Committee of the municipal People's Congress, explained the progress in revising the draft of the Shanghai municipal provisions for protecting women and children. A preliminary deliberation of this bill was already held at the 13th meeting of the municipal People's Congress Standing Committee. The current meeting will further deliberate the bill before it is formally adopted.

Shen Minkang, secretary general of the Standing Committee, explained the progress in revising the draft procedural rules of the Shanghai Municipal People's Congress. He said that this bill was initially discussed by members of the Standing Committee at the 13th meeting of the Standing Committee. They held that the draft procedural rules, which embody the experience of the municipal People's Congress and conform to the reality of Shanghai, are basically satisfactory. They also offered suggestions for revising the bill. After further discussion, the current meeting will decide whether to submit the draft procedural rules to the third session of the ninth municipal People's Congress for deliberation.

Vice Mayor Zhuang Xiaotian attended the meeting as an observer.

#### **Jiangxi Soldiers Receive Education on World Situation**

*OW1502181590 Nanchang Jiangxi Provincial Service  
in Mandarin 1100 GMT 13 Feb 90*

[Text] On 9 February, more than 50 office cadres of the provincial Military District organized into 10 groups led by principal leaders of the Military District. They braved severe cold to go to companies and county people's Armed Forces departments where they conducted extensive education about the current situation. They publicized the party's line, principles, and policies and answered questions raised by cadres, fighters, militiamen, and personnel on reserve duty, thus further steeling the belief that socialism is bound to triumph.

In view of various doubts and misgivings reflected by some comrades as a result of the changing international situation, leaders of the provincial military district paid attention to guiding cadres, fighters, militiamen, and personnel on reserve duty in applying the Marxist materialist concept of history to analyze the developmental trends in social history in order to make the education effective. Linking the history of the international communist movement to the practice of socialism in our country, the leaders of the military district helped the personnel further steel their belief that socialism is bound to triumph.

First, they theoretically explained that the process of development of human history is independent of man's will and that the substitution of socialism for capitalism will be the inevitable outcome of historical development. Second, in light of the situation in our country, they clearly explained that our party, Armed Forces, political power, geographical position, and history and traditions, as well as our party's basic line, are essentially different from those in other countries. Third, based on the actual situation in our country, they clearly explained that the current political situation, policies, and social order in our country are stable and that the achievements made in improving the economic environment, rectifying the economic order, and deepening the reform are primary, and that the difficulties encountered in these areas are temporary. They said that the difficulties are those encountered on the road of advance and they can be surmounted through effort.

Through study, large numbers of officers and men as well as militiamen and personnel on reserve duty understood more clearly the heavy burdens on their shoulders. They voiced their determination to rally around the party Central Committee, to resist the corrosive influence of bourgeois liberalization, to thoroughly smash the conspiracies of hostile forces at home and abroad to promote peaceful evolution, and to strengthen the building of Army units, the militia, and units of personnel on reserve duty.



**Shandong People's Congress Standing Committee Meets***SK1602080790 Jinan Shandong Provincial Service  
in Mandarin 2300 GMT 14 Feb 90*

[Text] The 14th Standing Committee meeting of the seventh provincial People's Congress opened at the Zhenzhuquan meeting hall of the provincial People's Congress Standing Committee on the morning of 14 February. Li Zhen, chairman of the provincial People's Congress Standing Committee, presided over the meeting.

At the plenary session held on the morning of 14 February, the participants listened to the report delivered by (Yue Zhenmo), vice chairman of the Credentials Committee under the seventh provincial People's Congress Standing Committee, on examining the qualifications of the deputies for the by-election; listened to the report made by Yu Peigao, secretary general of the provincial People's Government, on how the suggestions, criticisms, and opinions from deputies to the provincial People's Congress were handled by government departments throughout the province; listened to the report made by Wang Shenglin, deputy secretary general of the provincial People's Congress Standing Committee and director of the legal work committee under the provincial People's Congress Standing Committee, on the revision of the draft rules of procedures of the provincial People's Congress; listened to the report made by Xu Xuemeng, secretary general of the provincial People's Congress Standing Committee, on the preparations for holding the third session of the seventh provincial People's Congress; and listened to the report on submitting to the congress for acceptance the resignation of Comrade Yang Xingfu from the post of vice chairman of the seventh provincial People's Congress Standing Committee.

According to the agenda item approved at this plenary session, the participants of this meeting will also discuss and revise the discussion draft of the work report of the provincial People's Congress Standing Committee to be submitted to the third session of the seventh provincial People's Congress; will discuss and adopt the draft on the suggested agenda items of the third session of the seventh provincial People's Congress; will discuss and adopt the draft on the suggested namelists of members and secretary general of the presidium of the third session of the seventh provincial People's Congress; will examine the draft of the rules of procedures of the provincial People's Congress; and will decide by vote some items on personnel appointments and removals.

Attending the plenary session on the morning of 14 February were Lu Hong, Xiao Hong, Wang Shufang, Xu Jianchun, Lin Ping, Xu Sen, Yan Qingqing, and Li Ye, vice chairmen of the provincial People's Congress Standing Committee. Attending the session as nonvoting deputies were Zhang Ruifeng, vice governor of the province; Zang Kun, chief procurator of the provincial People's Procuratorate; Xu Leijian, Gao Fengwu, and

Zhang Zhusheng, deputies to the national and the provincial People's Congresses; and responsible comrades of the provincial Higher People's Court, the relevant departments under the provincial people's government, the various special committees under the provincial People's Congress, People's Congress Standing Committees in the cities under the jurisdiction of the provincial authorities, People's Congress work committees in various prefectures, and People's Congress Standing Committees in some counties and cities.

**Jiangxi Standing Committee Hears Reports***OW2502011390 Nanchang Jiangxi Provincial Service  
in Mandarin 1100 GMT 15 Feb 90*

[From the "Provincial Hookup" program]

[Excerpts] The 13th Session of the Seventh Jiangxi Provincial People's Congress Standing Committee opened in Nanchang this morning. It is scheduled to last for five days.

Xu Qin, chairman of the provincial People's Congress Standing Committee, chaired the meeting. Wang Zemin and Pei Dean, vice chairmen of the provincial People's Congress Standing Committee, were present. [passage omitted]

Attending the meeting as observers were Jiang Zhuping, vice governor of the provincial people's government; a responsible person of the provincial Higher People's Court; and Wang Shuheng, procurator general of the provincial People's Procuratorate. [passage omitted]

The meeting is scheduled to hear a report by Jiang Zhuping, vice governor of the provincial people's government, on a general inspection of tax revenues and prices in the province in 1989; explanations by (Qian Xiaojiang), vice chairman of the provincial family planning commission, on the draft of provisional regulations on family planning; a report by (Hou Yebin), vice chairman of the education, science, culture, and public health committee of the provincial People's Congress, on the examination of the draft regulations on family planning; a report by (Yan Meifeng), director of the provincial mining bureau, on implementation of the law on mineral resources in Jiangxi; and a report by (Zheng Fangrong), director of the provincial culture department, on cultural work in the province.

The meeting divided into groups to discuss the draft regulations on family planning on the afternoon of 15 February.

**SOUTHWEST REGION****Tibet People's Congress Committee Holds Meeting***HK1202101790 Lhasa Tibet Regional Service  
in Mandarin 1130 GMT 10 Feb 90*

[Excerpt] The five-day 8th Plenary Session of the 5th Tibet Autonomous Regional People's Congress Standing Committee concluded in Lhasa on 10 February.



The closing ceremony was presided over Pagbalha Geleg Namgyai, vice chairman of the Tibet Autonomous Regional People's Congress Standing Committee, and was attended by Sengqen Lozong Gyaincain, Lang Jie, Jangzhong Zhaxi Doje, and Wang Guangxi, vice chairmen of the Standing Committee, and all the members.

They discussed and approved the following documents: "Provisional Regulations and Their Interpretations Regarding Supervision Work of People's Congress Standing Committees at All Levels in Tibet Autonomous Region," "Measures for Electing Tibet Autonomous Regional People's Congress Standing Committee," "Report by General Office and Legal Work Committee of the Tibet Autonomous Regional People's Congress Standing Committee on Trial and Settlement of Cases," "Decision on Altering Formulation Procedure of Local Decrees and Regulations," and "Decision on Holding the 3d Plenary Session of the 5th Tibet Autonomous Regional People's Congress."

Tudao Doje, vice chairman of the Tibet Autonomous Regional People's Government, Yang Youcai, chief procurator of the Tibet Autonomous Regional People's Procuratorate, and a number of other leaders of the Tibet Autonomous Regional People's Government attended as nonvoting delegates. [passage omitted]

## NORTHWEST REGION

### Shaanxi Trade Union Cadres Study CPC Leadership Circular

HK0602043690 Xian Shaanxi Provincial Service  
in Mandarin 0030 GMT 3 Feb 90

[Text] The provincial Trade Union Federation yesterday called a forum for trade union cadres to study and discuss the circular issued by the CPC Central Committee on strengthening and improving the party's leadership over trade unions, Communist Youth League [CYL] organizations, and women's federations.

Participants in the forum pointed out that the circular has summed up the basic experience of our party in mass work in the past 40 years, particularly during the past

decade; gives concrete expression to our party's guiding ideology of relying on the working class heart and soul and on the broad masses of the people; and is a programmatic document for guiding the trade union work of our country during the period of economic construction. They also said that trade union organizations should be guided by the spirit of the central circular in the future, giving full play to their features and advantages under the unified leadership of the party, carrying out their work independently and with creativeness and maintaining closer ties with workers and staff members so that they will become in their true sense organizations supported and trusted by large numbers of workers and staff members.

Xue Zhaoyun, member of the secretariat of the All-China Federation of Trade Unions, and Gao Yingming, chairman of the provincial federations of trade unions, attended and addressed the forum.

### Xinjiang Democratic Parties Support CPC Document

HK1202082190 Urumqi Xinjiang Regional Service  
in Mandarin 2300 GMT 11 Feb 90

[Text] The publication of the document containing the opinions of the CPC Central Committee on persisting in and improving the system of multiparty cooperation and political consultation under the leadership of the CPC has evoked strong repercussions in the branches of various democratic parties in Xinjiang.

In an interview with reporters of our station, (Han Youwen), chairman of the Revolutionary Committee of the Chinese Kuomintang branch in Xinjiang; (Ma Meisheng), chairman of the branch of the China Democratic League branch in Xinjiang; and (Hong Xue), chairman of the China Association for Promoting Democracy branch in Xinjiang; unanimously pointed out that the formation and timely publication of the document was a major event in the development of democracy in our country, and also a matter of importance for all democratic parties. They pledged heartfelt support for the document, firmly upholding the leadership of the CPC, and unswervingly following the road of socialism.

**Beijing Attacks Kuomintang on Taiwan Independence**

*HK2602021390 Hong Kong HONGKONG STANDARD in English 26 Feb 90 p 6*

[By Lo Dic]

[Text] Beijing has launched its sternest attack yet on the Taiwan ruling Kuomintang and says its policy of covertly promoting Taiwan independence is even more dangerous than the clear-cut proindependent movements of the separatist forces on the island.

In an article published in the latest issue of the official OUTLOOK WEEKLY, Mr Li Jiaquan of Beijing's Taiwan Research Institute said that such officially promoted separatism was the bane of all proindependent movements that are being mounted in Taiwan today.

He said that it would only result in catastrophe for the Chinese people on both sides of the Taiwan Strait.

Chinese observers said Beijing's wordy attack reflected its anger over the KMT's [Kuomintang] policy direction in recent years, under the leadership of Taiwanese President Li Teng-hui. They said the policy sought to promote Taiwan as an independent political entity.

Beijing's move reflected its intention to prevent the KMT from becoming a Taiwanese-dominated party and from going too far in the separatist direction, they said.

Amid power struggles in the KMT, leadership has become acute in recent days. The power struggles are taking place between President Li and the KMT party old guards, who are mainly mainlanders, over issues which are related to the source of the party's legitimacy, they explained.

In the article, to be published today, Mr Li pointed out that the KMT's covert separatism is a product of its legitimacy crisis, resulting from its inability to recover the mainland while at the same time refusing to talk with Beijing for reunification.

Today, although still holding the brand of "republic of China," the KMT can no more claim to be representing the whole of China, and it therefore tries to promote a separatist Taiwanese political identity as its source of legitimacy, Mr Li said.

Such covert separatism was clearly seen in the support of the so-called "one country, two governments" that was raised last spring and has been embodied in the KMT authorities' moves for "feasible diplomacy," which approaches foreign countries for "double recognition," he said.

Mr Li mentioned that another contributing factor for the KMT's covert separatism was the political support of the United States government.

From the 1950s to the 1970s, there were U.S. political forces repeatedly advocating "one China, one Taiwan" and in the 1980s, especially in the last two years, these forces have encouraged and helped the KMT authorities to "strive for independent identity in the international realm," he said.

Even the U.S. government has adopted a double standard by maintaining official relations with both mainland China and Taiwan.

Former President Ronald Reagan's recommendation to the Bush administration for "observing the (U.S. government's) Taiwan Relations Act" was clear evidence of this, he said.

Mr Li pointed out that there were also some pro-Taiwan forces in Japan acting in the same fashion—to encourage the KMT in adopting covert separatism.

It is with these domestic and foreign backdrops that the KMT authorities adopt the covert separatism, he said, adding that the KMT also uses the temporary difficulties and unfavourable factors faced by the mainland to shirk the talks for reunification, he said.

### Article on Taiwan's Market, Trade With PRC

90OH0173A Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 11, 10 Nov 89 pp 74-76

[Article by Huang Zhonglian (7806 0112 5114):  
"Explore the Taiwan Market and Develop Trade  
Between the Two Sides of the Strait"]

[Text] *The expansion of trade between the two sides of the Taiwan Strait will contribute politically to the peaceful reunification of the two sides and economically to the development of the export-oriented economy of the coastal areas.*

Since the beginning of the 1970's, Taiwan's exports have increased year after year, resulting in a rapidly growing trade surplus and a huge foreign exchange reserve which now stands at more than \$70 billion. This has irked Taiwan's major trading partners, including the United States, and they are adopting rigid, protective trade measures to force Taiwan to reduce exports and increase imports to eliminate the trade surplus. Taiwan has been forced to gradually open up its market, increase imports, expand domestic demands, readjust its industrial structure, and seek new motive forces for continued economic growth. Thus, Taiwan has become a potentially great new market, attracting much attention from surrounding countries and areas. The Hong Kong Trade Development Bureau regards the Asian-Pacific region as the focus of Hong Kong's trade expansion in the next few years. For this reason, it has recently set up an office in Taiwan and held three rather large "Hong Kong products fair" in a row to lead Hong Kong businesses in actively exploring the Taiwan market.

Since around the beginning of the 1980's, Mainland China has implemented a policy of opening to the outside world, and the Taiwan authorities have also gradually relaxed their policy toward the mainland, making it possible for fairly rapid development of economic and trade relations between the two sides. However, restricted by a variety of factors, the volume of bilateral trade is still limited at present, especially exports from the mainland to Taiwan. The expansion of trade between the two sides of the Taiwan Strait will contribute politically to the peaceful reunification of the two sides and economically to the development of the export-oriented economy of the coastal areas.

### The Trend of Trade Between the Two Sides

Before 1979, trade between the two sides, totaling only \$47 million, was basically one-way export from the mainland to Taiwan. After 1979, two-way trade, mainly entrepot trade, began to develop. In the 11 years to the present, trade between the mainland and Taiwan has gone through three developing stages under the policies of the two sides.

From 1979 through 1981, trade between the two sides rose quickly to \$467 million in 1981, nearly 10 times than before 1979.

From 1982 through 1986, trade between the two sides rose with fluctuations. In 1982, the trade volume dropped to \$298 million. It began to rise again in 1983, topped \$1 billion in 1985, but dropped to \$958 million in 1986, only double that in 1981.

From 1987 to the present, trade between the two sides has grown steadily. In 1987, the Taiwan authorities began to relax their policies toward the mainland and successively lifted the bans on traveling to the mainland to visit relatives and on indirect trade. As a result, the trade volume between the two sides rose to \$1.56 billion in the same year, and \$2.72 billion in 1988, increasing by 65 percent and 80 percent respectively each year. According to a forecast by the China Research Institute in Taiwan, trade between the two sides may top \$3 billion in 1989, maintaining a fairly high growth rate.

An analysis of the trade development between the two sides in the past 11 years shows the following characteristics:

First, trade has developed very rapidly. In the 11 years between 1978 and 1988, mainland China's total imports and exports increased by 340 percent, an average of 31.5 percent per year. In the same period, Taiwan's total imports and exports increased by 378 percent, an average of 34.4 percent per year. But, in the same period, the trade volume between Mainland China and Taiwan increased from \$46.68 million in 1978 to more than \$2.7 billion in 1988, and the 11-year total was \$8.4 billion, a 70-fold increase between 1978 and 1988, with an average annual increase of 67.5 percent. From January through April this year, entrepot trade between the two sides totaled \$1,144 million, a 64.3 percent increase over the same period last year. Trade between the mainland and Taiwan has grown at a much higher rate than that of either the mainland or Taiwan with other parts of the world.

Second, trade between the two sides is highly complementary. Before 1985, Taiwan commodities exported to the mainland consisted mainly of household electrical appliances, nylon fabrics, umbrellas, and other consumer goods. In the past two years, owing to the increasing needs of the mainland's growing industries and the increased number of factories established on the mainland by Taiwan companies, exports of industrial raw and semifinished materials, intermediate products, machineries, and equipment from Taiwan to the mainland have increased sharply. In 1988, these products accounted for 93 percent of Taiwan's total exports to the mainland. The export mix from the mainland to Taiwan has also changed considerably. In the past, it consisted mainly of food, Chinese medicinal herbs, and other local and special products. Since the Taiwan authorities successively lifted the ban on 50 kinds of mainland products, allowing them to be brought into Taiwan through an entrepot, exports of industrial raw materials and finished products from the mainland to Taiwan have also increased considerably, rising to 84 percent of Mainland China's total exports to Taiwan in 1988. The

changing product mix indicates that trade between the two sides has made the turn from simple purchases and sales to normal economic activities seeking comparative advantages and supplying each other's needs.

Third, trade between the two sides is very unbalanced. Before 1979, it consisted almost entirely of imports of mainland products by Taiwan. In 1980, Taiwan products began to enter mainland markets and have since been growing rapidly in volume. In contrast, because direct trade between the two sides is still prohibited by the Taiwan authorities, it is difficult for mainland products to get into Taiwan. As a result, trade between the two sides is extremely unbalanced. According to Hong Kong customs statistics, Mainland China's exports to Taiwan totaled \$46.68 million in 1978 and \$288.94 million in 1987, a 510-percent increase in 10 years. In 1978, Taiwan exported about \$50,000 worth of goods to the mainland through Hong Kong. Taiwan's exports to the mainland rose to \$1,226,530,000 in 1987, a 24,531-fold increase in 10 years. Comparing the two, exports from Taiwan to the mainland grew 4,021 times as fast as that from the mainland to Taiwan. Year after year, Taiwan enjoyed a favorable balance of trade with the mainland, which in the 11 years up to 1988 accumulated to a whopping \$5.15 billion. This situation is hardly conducive to the sound development of trade between the two sides.

#### Characteristics of the Taiwan Market

Like other markets, the Taiwan market is composed mainly of two large categories of goods—capital goods and consumer goods. Because of its limited territory, small population, and lack of natural resources, Taiwan's economy is highly export-oriented and has its own distinctive characteristics.

##### 1. Increasing Absorption Capacity

Taiwan has a land area of more than 35,000 square kilometers and a population of 20 million. Judging by territory and population, the market is very limited in scale. However, in terms of import volume, it is a very large market. From 1952 to 1985, Taiwan's imports increased at an average annual rate of 16 percent. From 1986 to 1988, the average annual increase rose to 35 percent. In 1988, Taiwan's imports totaled \$49.65 billion, the 16th largest in the world.

Deficient in natural resources, Taiwan has long relied on large-scale imports and exports to stimulate economic development. The purpose of import is for export. Therefore, its import market is dominated by capitals for production. Capital equipment and agricultural and industrial raw materials accounted for 92.5 percent of the total value of Taiwan's imports in 1988. Electronic equipment, machinery, chemical products, iron and steel, transport means, crude oil, nonferrous metals, and so forth are among the items imported in largest quantities. At present, consumer goods make up only 7.5 percent of Taiwan's imports, but they have great potential for growth. With economic development, Taiwan's

living standard has been improving quite rapidly in recent years. In 1988, the per capita national income rose to more than \$6,000, and the island's savings deposits reached a total of NT\$600 billion. Desires for consumption are high, and the people want more and more comfort and enjoyment in clothing, food, housing, and transportation. For example, imported transportation means increased by 72.1 percent in 1988 over that in 1987, and accounted for 5.7 percent of the year's total imports, as compared with 4.7 percent a year ago, and the increase was caused by a sharp rise in the number of imported cars. Imports of corn and wheat, used in food processing, also increased by 56.2 percent and 31.3 percent, respectively, in 1988. In clothing, the trend is toward brand names and high-grade products. The demand for jewelry and gold ornaments is growing rapidly. More and more Japanese and Hong Kong businessmen are setting up shops in Taiwan and making big money.

In July 1987, the Taiwan authorities greatly relaxed foreign exchange control, basically allowing individuals and companies to own, buy, and sell foreign exchange freely. No prior approval is required for outward remittances of \$1 million or less, and each person can remit \$5 million each year, thus relaxing the restrictions on foreign exchange payments for imports. The relaxation of market control in Taiwan is just beginning. With the implementation and perfection of economic liberalization and internationalization, the market will become increasingly more open.

##### 2. Increasing Openness

Before 1986, Taiwan's imports, though quite sizable each year, were limited mainly to products for processing and re-export. The market was protected with extremely strict measures. In the past few years, under pressure of international trade protectionism, the Taiwan authorities have adopted the tactics of economic liberalization and internationalization, and gradually opened its markets to foreign countries. The major steps taken include reducing the number of restricted import items, lowering import duties, simplifying import procedures, and relaxing foreign exchange control.

With regard to import restrictions, the Foreign Trade Bureau announced the relaxation of import restrictions on 333 products in February this year, lifted the ban on 13 imported fruits in March, and is now studying if control can be relaxed on more than 1,000 other imported items.

With regard to import duties, Taiwan's Ministry of Finance this year has lowered the duties on 4,840 products, or 62 percent of all the items covered by the customs import tariff, by an average of 24.6 percent. The ministry has set a four-year goal to reduce import duties on industrial products by eight percent in 1989, seven percent in 1990, six percent in 1991, and five percent in 1992, for a total reduction of 26 percent. So far, Taiwan has lowered its maximum import tariff from 75 percent

in 1988 to the present 57.5 percent. In the next round, it may be reduced by another 20 percent or more.

In simplifying import procedures, so far the number of products which can be imported without a license has increased to 8,429, about 30 percent of the total number of imported items. They include electrical machinery, household electrical appliances, pulp, and paper. A decision has also been made recently to abolish 1,589 duty-refund items, including chemicals, electrical appliances, iron and steel, spices, and other commodities. Thus the market has become much more open to foreign countries.

At present, Taiwan still maintains a huge trade surplus, and its foreign exchange reserve remains enormous. To alleviate trade frictions, while continuing to increase exports, Taiwan will rely more on expanding domestic demands to stimulate economic growth. And individual consumption demands are high. Therefore, Taiwan's import market will continue to expand, and this year's gross import is expected to exceed \$60 billion.

### *3. Demands for Mainland Products*

At present, the Taiwan authorities still maintain the stand of no direct postal links, trade relations, and air and shipping services with the mainland. Although the ban is being lifted gradually on indirect trade, so far only 50 agricultural and industrial raw materials have been officially permitted to be imported indirectly from the mainland. However, Taiwan's industrial and commercial circles, suffering from difficulties caused by the appreciation of the Taiwan currency, are very interested in the low-priced mainland products. They are dexterously going around the artificially imposed obstacles by the government and bringing more mainland products into the Taiwan market.

The largest mainland export to Taiwan in 1988 was nonedible raw materials, which accounted for 39 percent of the total; the second largest was manufactured goods classified as raw materials, 27.2 percent; and the third was chemicals and related products, 11.2 percent. It shows that Taiwan's demands for mainland products are still mainly agricultural and industrial raw materials. However, a look at the growth rates shows that in 1988, the export of tobacco and tobacco products from the mainland to Taiwan increased by 150 percent; animal and vegetable oils, fats, and waxes increased by 460 percent; machinery and transport equipment increased by 620 percent; and miscellaneous products increased by 200 percent. It shows that Taiwan's market demands for mainland products have grown in variety and especially in quantity.

At present, mainland products have only a very small share of Taiwan's market, about one percent of Taiwan's gross annual import. Among Taiwan's largest imports, food items, beverages, and tobacco amount to \$1.825 billion each year, of which the mainland accounts for only some \$50 million, or 2.8 percent; photographic equipment, optical articles, and clocks and watches total

\$500 million each year, of which the mainland accounts for only \$530,000, or 0.19 percent; and machinery and transportation means total nearly \$7.8 billion, of which the mainland accounts for only some \$28 million, or 0.36 percent. It is obvious that there is still great potential for mainland products to gain a larger share of Taiwan's market.

### *Fujian's Potential for Trade With Taiwan*

Facing each other across the strait, Fujian and Taiwan are close geographically, linked by ties of blood, similar in customs, and speaking the same dialect. Fujian has many inherent advantages in developing trade with Taiwan. Once the ban on direct postal links, trade relations, and air and shipping services with the mainland is lifted by the Taiwan authorities, Fujian will become the ideal place for direct contacts between the two sides. Even for the indirect contacts at present, Fujian's proximity to Hong Kong and Macao makes it very convenient for the transshipment of goods to Taiwan.

At present, there are in Fujian the Huamin (Group) Company, the Fujian Provincial Foreign Trade Company, and the Xiamen Youli Taiwan Trading Company approved by the state to engage in large-volume entrepot trade with Taiwan. There are also more than 10 companies engaged in small-volume direct trade, limited to \$50,000 each voyage, with Taiwan. Receiving centers for Taiwan compatriots and berthing points for Taiwan fishing boats have been established in many places along the Fujian coast. A multilevel and multiform Taiwan trade network is beginning to take shape, and a great deal of experience has been accumulated.

Since the Taiwan authorities lifted the ban on travel to the mainland to visit relatives, more and more Taiwan compatriots have returned to the mainland to visit their relatives each year. Fujian is the destination for most of them. They return to Fujian to look for their roots, add their names to the family pedigree, and visit relatives and friends. Taiwan fishing boats also call on Fujian shores to replenish supplies, visit places, and make business deals, and these contacts are becoming increasingly frequent. Through contacts and conversations with them, a lot of information on Taiwan's markets can be obtained for us to keep abreast of developments, readjust our policies, and develop trade with Taiwan.

As of the end of May this year, there were 365 enterprises and joint development projects involving Taiwanese investments in Fujian, of which more than 200 have begun production or opened for business. Recently Fujian has designated Haicang and Xinglin, in Xiamen, and Meizhouwan, in Putian, as Taiwanese business development zones, where Taiwanese investors will be given preferential treatment. In the future, more Taiwanese firms are expected to invest and build factories in Fujian. Most of the Taiwanese-funded enterprises are



enterprises which import raw materials and export finished products. They know what the demands are in Taiwan and are familiar with the marketing channels.

#### The Huamin

t representative organization of the Fujian Provincial Government in Hong Kong. It is the general agent for all the economic and trade enterprises of Fujian province in Hong Kong and Macao. And it has close ties with Taiwan's industrial and commercial circles. It will play a major role as a bridge in the future development of trade between the two sides of the strait.

#### DPP Members Discuss Internal Ideological Conflicts

90ON0202A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 238, 1 Nov 89 pp 47-48

[Interview with Lu Yu (0712 2509), Lin Cheng-chieh (2651 2973 2638), and Lin Cho-shui (2651 3424 3055), factional representatives of the Democratic Progressive Party (DPP), by Liang Mei-fen (2733 5019 5358): "The Reunification-Independence Debate and Future Development of the DPP"]

[Text] Since Taiwan lifted martial law in 1987, people's forces outside the KMT [Kuomintang] have grown rapidly and the number of large and small parties has exceeded 20. Among them, the Democratic Progressive Party (DPP) is the strongest. However when the KMT government is trying to open up politics and hold the first democratic election at the end of 1989, widely circulated rumors indicate that the DPP, the KMT's greatest threat, is going to break up. Is the development of Taiwan's non-KMT forces really as promising as outsiders said? Where are their main differences? I interviewed the representatives of the DPP's various factions on these issues at the end of August. First, I will make a brief analysis.

#### Analysis of Various Opposition Parties and Their Factions

The DPP is divided into three main factions: the Formosa, Progressive, and New Tide factions.

The Formosa faction, which is headed by Huang Hsin-chieh [7806 0207 0094], emphasizes Taiwan residents' self-determination (namely deciding their future on their own), stresses political openness, and seeks a checks-and-balances government. But economically it advocates "the theory of economic uncertainty," holding that all issues concerning the economic system must wait until after the political system is opened up. Because of this, some people criticize the Formosa faction as the faction that "remains unchanged for 50 years." Many behind-the-scene supporters of this faction are businessmen, whereas the so-called political business families of Taiwan all tend to support Taiwan's existing economic system. This faction vacillates somewhat on the issue of reunification and independence.

Another faction of the DPP is the Progressive faction headed by Lin Cheng-chieh [2651 2973 2638]. Lin Cheng-chieh's origin is Mainland China. In Taiwan, people whose origin is Mainland China generally tend to "oppose Taiwan independence," whereas native Taiwanese, in comparison, prefer Taiwan independence. The slogan of the Progressive faction is "opposing Taiwan independence and peace for the Taiwan Strait." This faction has many "green" ideas [ecological orientation], namely emphasizing grassroots democracy, the society of ecological economy, social responsibility, and an antinuclear stance. However, this faction's power is relatively weak in the DPP.

The New Tide faction is the strongest competitor of the Formosa faction. Many of their major members have returned from Europe and the United States. They vehemently advocate independence and uphold "the theory of uncertainty of Taiwan's position." They think that, since Japanese withdrew from Taiwan after the end of World War II, Taiwan's affiliation has never been clearly defined. They believe that Taiwan should adopt the democratic system both politically and economically and that every region has the right to seek democracy. Of all factions in the DPP, the New Tide faction has the greatest "leftist" tendency and belongs to the "pro-independence leftist" group. But, because its members' political ideas are mostly inclined to those of the West and their economic ideas are very vague, they are often criticized by Taiwan's leftists, although they consider themselves leftists. Taiwan's "pro-reunification leftists," in particular, almost totally negate that the New Tide faction is leftist. They also criticize the latter for having the United States as their backing. Representatives of the New Tide faction include Chiu I-jen [6726 5030 0088], Wu Nai-jen [0702 0035 0088], Lin Cho-shui [2651 3424 3055], and Hung Chi-chang [3163 1142 2490].

Taiwan has many leftist forces in addition to the DPP, but they are very scattered and cannot be merged into a group like the DPP. They include the Taiwan Labor Law Support Group, the Housewives' Alliance, the Farmers' Rights Association, the Workers' Party, and the Labor Party. Taiwan's Workers' Party does not emphasize the division of class and calls itself "a political party for the whole people." The Labor Party, however, emphasizes class analysis and wants to unify China with socialism. But after 4 June, most of these factions talked about the issue of reunification on a low key, advocated peaceful reunification, respected objective history, and considered actual conditions.

Lu Yu [0712 2509]: The Formosa faction. He was sentenced to life in prison in 1969 on the charge of involvement in the student movement. His sentence was later reduced to 15 years. He was released from prison in 1984 and now works as a member of the Taiwan Political and Economic Research Institute, which is a peripheral organization of the DPP.

[Liang Mei-fen] According to widely circulated outside rumors, the New Tide and the Formosa factions have

great differences and the Progressive faction is ecologically oriented. "Do you think that it is highly possible that these three factions will split up? Will the Progressive faction break away and become a new "Green Party"?"

[Lu Yu] This ecologically-oriented tendency of the Progressive faction is indeed very obvious. As far as political line is concerned, they really should form a Green Party. But, unfortunately, their manpower is still limited, so forming an independent party is impossible for the time being, especially before the general election at the end of 1989. I believe that, currently, the Progressive faction still is a supporter of the DPP. However, I also hope that one day they can develop into a "Green Party."

As for the problems between the New Tide and the Formosa factions, they are indeed very serious. The economic ideas of these two factions are very different. Besides, the leftist ideas of the New Tide faction are somewhat confusing. For the time being, neither side can control the other. But the force of the New Tide faction tends to grow as each day goes by. Their concept of "Taiwan independence" is very popular among young people. About 60 percent of student movement forces in Taiwan's universities are attracted to them. I believe that the results of the general election at the end of 1989 will be decisive. After the general election, it is very possible that the DPP will split up. At present, these two factions are cooperating in consideration of the situation as a whole. If the Formosa faction's general election results are not satisfactory, it will probably break away and form its own party and leave the New Tide faction as the main force of the DPP. But the DPP's split up is nothing to be concerned about; it is possible that the KMT also will split up. All these are Tides of natural development.

[Liang Mei-fen] Some people say that the Formosa faction persists in the economic theory of "having no change for 50 years." They also say that you are not much different from the KMT. Do you agree?

[Lu Yu] As a matter of fact, we did not say that economy should remain unchanged for 50 years. We said only that the reform of economic system is a relatively remote matter. What we can and need to do now is achieve political democratization.

[Liang Mei-fen] The Formosa faction has been considered as Taiwan's pro-reunification group. What do you think about this?

[Lu Yu] In fact, the Formosa faction did not say that it was pro-reunification. It was only because the DPP's chairman Huang Hsin-chieh himself was considered to have the "pro-reunification" tendency and he happened to belong to the Formosa faction. Even so, he himself seems to be much more low-key about his "pro-reunification" stand than he was before. As far as the Formosa faction is concerned, the issue of reunification and independence is actually not our major concern.

What we are mainly concerned about is to seek first of all a politically open government under the checks-and-balances system.

Lin Cheng-chieh: A representative of the Progressive faction, former Taipei City Council member, and founder of CHIEN CHIN [PROGRESS] magazine which has stopped publishing. He was once sentenced to one year in prison for libel committed while addressing inquiries at a council session.

[Liang Mei-fen] What is the base for your stand of "opposing independence and peace for the Taiwan Strait"? What is the effect of the 4 June incident on you?

[Lin Cheng-chieh] Our slogan "opposing independence" is based mainly on the political environment of reality. We do not suggest that we unify with Mainland China right now. But after the two societies develop to a certain degree, we may consider rational reunification with the mainland. In fact, the 4 June tragedy is conducive to both pro-reunification and pro-independence groups in Taiwan. Naturally, the pro-independence group has gone all-out to describe how horrible the CPC is and why we must not be reunified. As far as the pro-reunification group is concerned, the 4 June tragedy gave the masses of citizens a lesson in "national sentiment." Although the 4 June incident deepened the citizens' hatred toward the CPC, it increased their concern for the people of the mainland.

[Liang Mei-fen] Do you think that the issue of reunification and independence will be stressed in the year-end general election? How will citizens react to it?

[Lin Cheng-chieh] In this general election, it is certain that candidates will stress the stand of reunification and independence in their political platform. In Taiwan, people generally think that residents whose origin is Mainland China, as well as new and old immigrants from Mainland China, all oppose independence as they have deeper feelings for the mainland; whereas native Taiwan residents oppose reunification. After the 4 June incident, candidates tend to adopt a more clear-cut stance on the issue of reunification and independence in order to win over their voters.

But I personally think that in Taiwan the pro-reunification and the pro-independence groups actually fight only over their slogans. Their views do not differ that much in essence. As a matter of fact, on this issue, even the views of the KMT and the DPP do not differ that much in essence.

[Liang Mei-fen] CPC leaders claimed that they will reunify China before the year 2000. What do you think about this? Does the Taiwan Government's flexible diplomacy work?

[Lin Cheng-chieh] Reunifying China by the year 2000, I think, is only the wishful thinking of those "old people." Judged from Taiwan's local condition, it is absolutely impossible to reunify China through peaceful methods

before the year 2000. As for the "one China, one Taiwan" policy, I think it is quite difficult, too. Mainland China will not let Taiwan become independent. But the KMT government is now using flexibility to counter strength by first adopting "flexible diplomacy," which has yielded fairly good results.

[Liang Mei-fen] Does the Progressive faction intend to become a Green Party in the future? What do you think about the inner conflicts of the DPP?

[Lin Cheng-chieh] For the time being we cannot survive unless we attach ourselves to the DPP. At present, Taiwan's green force is still limited to very few people. The Formosa faction is becoming closer and closer to the "Collective Wisdom Society," a newly emerging force of the younger generation in the KMT. In my opinion, it is a very natural tendency for the New Tide faction to break up with the Formosa faction. By that time, the Formosa faction may cooperate with the "Collective Wisdom Society." If so, the new and old forces of the KMT will also break up, thus clearly dividing Taiwan's political forces into four groups: "pro-reunification and pro-independence leftists and rightists."

[Liang Mei-fen] What are "pro-reunification and pro-independence leftists and rightists"?

[Lin Cheng-Chieh] Pro-reunification leftists advocate reunifying China with socialism, such as the Summer Tide organization. Pro-independence leftists include the New Tide faction. Pro-reunification rightists include the KMT and some members of the Formosa faction. Pro-independence rightists include the Collective Wisdom Society and other members of the Formosa faction. These four forces may regroup naturally after the general election.

Lin Cho-shui: A representative of the New Tide faction and one of the founders of the HSIN CHAO LIU [NEW TREND] magazine.

[Liang Mei-fen] Many people criticize the New Tide faction for vague concepts and call you left deviationists. Do you agree?

[Lin Cho-shui] In Taiwan, we are leftists. This is correct because in economics we support the democratic system of production, and in politics we demand democracy and openness. The democratic system of production refers to workers participating in the decisionmaking in the production process of factories. This model is closer to that of West Germany, not the workers collective management of Yugoslavia.

[Liang Mei-fen] In economic and political spheres, do you believe in socialism? Some people say that the New Tide faction is leftist in name and rightist in reality and that it is confused in economic theory. What do you think?

[Lin Cho-shui] In the economic sphere, we do not follow traditional socialism. Instead, we believe that we need democracy in both economic and political spheres. In

politics, we are leaning toward the "checks-and-balances" government concept of the West. Regarding what you said about "being leftist in name and rightist in reality," you may call us leftists in comparison to other rightists and rightists in comparison to other leftists. Our ultimate goal is to establish a democratic procedures in the political and economic spheres.

[Liang Mei-fen] Some criticize that the New Tide faction is backed by the United States. They also say that once Taiwan is independent, it will become a U.S. colony. What do you think?

[Lin Cho-shui] We are completely independent. The reason we demand independence is because we want to get rid of U.S. influence and its invisible control on us. Currently, Taiwan's international position is uncertain. That is why Taiwan has to rely on the United States and is constantly afraid of Communist China's threat. But if Taiwan were really independent and becomes a country, it will appear simultaneously with Communist China on the international stage. At that time, we will not have to rely on the United States. Only then will we have our own capital.

[Liang Mei-fen] Do you really believe that Taiwan's independence is possible? Do you think that Taiwan residents' concept of Taiwan independence has changed after the 4 June incident?

[Lin Cho-shui] Taiwan's independence is necessary. Judged from the development of world history, I do not see why China must insist on the concept of unification. Taiwan independence is conducive to the development of both sides. If Communist China takes Taiwan by force, the consequence will be disastrous. Besides, I believe that other countries will not let Mainland China attack Taiwan with force. The people of Taiwan have been deceived by the KMT and trained from childhood to oppose Taiwan independence. This is a trick the KMT used to rule the country. Supporters of Taiwan independence are usually misunderstood by other people. After the 4 June incident, everyone seemed to have taken a course in "what is Communist China?" The number of our supporters has indeed grown since then.

### Taiwan Independence Proponents Seen Gaining Momentum

90ON0263A Hong Kong MING PAO YUE KAN [MING PAO MONTHLY] in Chinese No 289, Jan 90 pp 14-17

[Article by Lu Chun-fu (0712 0193 3940): "Should Unification Not Occur, Taiwan Will Ultimately Become Independent"]

[Text] Following the lifting of martial law and organization of parties according to law, Taiwan recently held its first multiparty election of expanded members of the legislature, provincial assembly members, county magistrates, and mayors. This article does not intend to discuss the gains or losses in this election of the ruling

Kuomintang and the opposition Democratic Progressive Party [DPP], or other political parties (such as the Workers Party); it desires only to look into a reality that cannot be overlooked in this election, namely the ground gained by "Taiwan independence" forces. This is because this force has gained the sympathy, and even the endorsement and approval of some of the electorate.

#### Development of "Taiwan Independence" Forces

Just what is meant by "Taiwan independence"? The definition of this term differs among different people, and at different times. Who began Taiwan independence and when it began is also an open question. Li Sheng-feng [2621 0524 1496], a Kuomintang legislator of Taiwan origin who is quite well versed on this matter, believes that the idea of Taiwan independence first emerged in 1949 when the government instituted land reform, thereby causing landlord discontent with the government over the loss of their land. However, it did not strike root among the public at that time. He said, "At that stage, advocacy of Taiwan independence covered a broad spectrum. At the one end of the spectrum was the founding of a new and independent country of Taiwan that was not called the Republic of China, nor was it called China. At the other end was simply a desire to be rid of mainland sovereignty so that the idea of unification with Mainland China no longer existed. The name to be used was not important. All other advocacy of Taiwan independence was probably between these two extremes."<sup>1</sup>

As a result of 40 years of development, a qualitative and quantitative evolution has occurred in the Taiwan independence movement. On 17 April 1988, the DPP National Congress passed a resolution, the main points of which were as follows: 1) "Taiwan independence" is one possible scheme for solving the Taiwan issue. The ruling party authorities should not forbid it. 2) Taiwan's international sovereign independence does not belong to the "People's Republic of China"; changes in the international standing of Taiwan must be freely agreed to by all the residents of Taiwan. 3) Should the Kuomintang and the Communists enter into one-sided peace talks, should the Kuomintang sell out the interests of the people of Taiwan, should the Chinese Communists unify Taiwan, and should the Kuomintang not institute genuinely democratic constitutional government, this party advocates independence for Taiwan."<sup>2</sup>

During the recent multiparty election, the Taiwan independence movement intensified, developing within the space of less than two years at a by no means slow speed to a position beyond the above-mentioned resolution of the DPP National Congress. During the recent election, the "New National Alliance," which was promoted by the "New Tide faction" of the DPP, won eight legislator seats and 12 provincial and municipal assemblyman seats by advocating a "new constitution" and the founding of an "oriental Switzerland"—the Republic of Taiwan. This greatly advanced the momentum for an

independent Taiwan. The Kuomintang's greatest setback in this election was the loss of the county magistrate's seat in Taipei County, the party chairman, Li Teng-hui's hometown, which was taken by DPP candidate Yu Ch'ing [1429 3237]. Yu Ch'ing, a lawyer by profession, who holds a doctor's degree, defeated by a small number of votes the Kuomintang candidate, Dr. Li Hsi-k'un [2621 6932 6924], a university professor. Although Yu Ch'ing avoided talking about Taiwan independence during the campaign, he disclosed in an interview with foreign correspondents that he did not oppose Taiwan independence, and he maintained that the Chinese Communists were powerless to go to war over Taiwan independence.

Not only have Taiwan independence forces increased on the island, but a succession of Taiwan independence elements from abroad has also infiltrated the island to stir up trouble. One example was the chairman of the U.S. headquarters of the Taiwan Independence Federation, Kuo Pei-hung [6753 0223 1347], who slipped into Taiwan to take part in a political rally for DPP legislator candidate Lu Hsiu-i [4151 0208 0001], and provincial assemblyman candidate Chou Hui-ying [0719 1979 3841]. At this rally, he preached Taiwan independence. In the end, both Lu and Chou won the election by a large margin. In order to prevent clashes between the police and the citizenry, the government did not arrest Kuo Pei-hung on the spot. Surprisingly, he was able to slip back to the United States, possibly because the Taiwan coastline is so long that it is impossible to guard. Not long ago, Hsu Hsin-liang [6079 0207 5328] also tried to slip back into Taiwan, but he was tracked down and seized at sea. After returning to the United States, Kuo Pei-hung held a news conference at Los Angeles Airport where he announced that the overseas Taiwan Independence Federation would move back to Taiwan within one to two years to carry out activities openly.

Judging from Kuo Pei-hung's ability to come and go with ease, the overseas Taiwan independence organization appears to have established on the island a rather closely knit liaison network and operating group. There must be people on the island who maintain contacts for, make arrangements for, coordinate actions for, and protect the activities of Kuo Pei-hung and other overseas Taiwan independence personalities, maintaining a situation of collaboration from within with forces from without.

Taiwan independence elements are active not only in society, but also on college campuses. For many years, various political forces on the island have vied with each other sub rosa to recruit college students as members. After the lifting of martial law, this situation became more common. Therefore, Taiwan University, which is called the cradle of liberalism, has even more become a main arena of activity for Taiwan independence elements. In addition, the Presbyterian Church and its seminary in Tainan, which has always advocated that Taiwan should found a new nation, has actively supported Taiwan independence activities. The Presbyterian Church has recruited members from among local



student social groups to spread the idea of Taiwan independence. In the recent major election, in which the DPP's New Tide faction scored substantial victories, quite a few of the hardcore followers who helped the candidates get elected came from university campuses.

Although Taiwan natives account for a majority of Taiwan independence elements and their sympathizers, there are also some supporters from other provinces, their percentage of the total electorate possibly totaling approximately 10 percent. Results of a Public Opinion Survey Foundation survey following the major election showed that 17.1 percent of those interviewed maintained that candidates should be able to advocate Taiwan independence openly, and 8.2 percent approved advocacy of Taiwan independence.

#### Reasons for Supporting "Taiwan Independence"

The reason for sympathizing with or supporting advocacy of Taiwan independence may be dissatisfaction with the current situation. Dissatisfactions with the current situation may be further analyzed as follows:

1. Dissatisfaction with the government or the ruling party. Until it lifted martial law, the strong man-led national government presented a dictatorial image. Despite the lifting of martial law in recent years, social order is no longer what it was, leading to dissatisfaction with the government or the ruling party. The dissatisfied include both Taiwanese and people from other provinces.
2. Dissatisfaction with people from other provinces. Most power holders come from outside the province; consequently, some Taiwanese are dissatisfied with people from other provinces and demand localization.
3. Dissatisfaction with the makeup of the national parliament. Most of the members (both delegates and committee members) of Taiwan's national parliament (particularly the the National Assembly and the Legislative Yuan) were elected more than 40 years ago on the mainland. They do not represent the citizens on Taiwan. This has aroused universal dissatisfaction, shared by the Taiwanese and people from other provinces alike. Consequently, many people demand a complete reelection of the national parliament.
4. Dissatisfaction with international status. The national government moved to Taiwan where its name is the same as it was 40 years ago on the mainland, but it cannot command the general international recognition it enjoyed on the mainland. In particular, after its position in the United Nations was taken by the Chinese Communists, it became more isolated diplomatically. Although it called itself the "Republic of China," internationally it was referred to mostly as "Taiwan," leading to an identity crisis. Thus, some people call for a "name to match the reality," preferring to call the country the "Republic of Taiwan" in the hope of gaining international recognition.

5. Dissatisfaction with the prospect of unification. Following its move to Taiwan, the national government sought to counterattack the mainland, and in recent years it has called for the "unification of China under the three principles of the people." Nevertheless, during the past 40 years, there has been no indication at all of unification, and most people are not optimistic about prospects for unification. As a result, some people believe that, since unification is not feasible, it would be better to be independent, and be done with it.

6. Dissatisfaction with the Chinese Communists. Chinese Communist rule of the mainland remains despotic and in straitened circumstances. It is also capable of posing an armed threat to Taiwan at any time. Since the "4 June" Tiananmen incident, Chinese on Taiwan feel even more that the Chinese Communists are unable to unite the entire country through democratic means. They are much less willing to accept the dictatorial Chinese Communist regime. Thus, some people advocate Taiwan independence in order to avoid being taken over as Chinese Communist territory.

#### Anti-Taiwan Independence Forces

As Taiwan independence forces grow, those opposed to Taiwan independence are not to be outdone. Even the "Beautiful Island faction" of the DPP does not stress Taiwan independence, advocating moderate reform instead. The strongest opponent of Taiwan independence within the DPP is Chu Kao-cheng [2612 7559 2973], who won reelection as a legislator by a wide margin in the recent election. When Chu Kao-cheng served as a first-term legislator, he was a man of action in word and deed, yet he is very perceptive, has broad knowledge, and understands the times. Furthermore, his words and deeds are relatively sensible and moderate. He advocates a quest for reform while maintaining stability. This has led to some Taiwan independence elements branding him a "Taiwan traitor." Most Kuomintang members oppose Taiwan independence, to be sure. The Kuomintang's reform faction the "New Kuomintang Alliance," which was founded by Chao Shao-k'ang [6392 1421 1660] and Li Sheng-feng before the recent election, advocates considerable liberalization and reform. Consequently, its eight members have been elected to expanded legislator positions, Chao Shao-k'ang being elected with the highest number of votes.

The main reasons for opposition to Taiwan independence are two. The first one is based on the subjective hopes of the Chinese on Taiwan; the other is based on the objective pressure from the other side of the Taiwan Strait. By this so-called "pressure" is meant many Chinese Communist hints about using armed force to suppress Taiwan independence. Naturally, quite a few people also believe that the Chinese Communists would be unable to launch an armed attack against Taiwan. Right after the national government moved to Taiwan, exploiting their victory on the Chinese mainland, the Chinese Communists invaded Jinmen, only to be defeated. Today, morale in the Chinese Communist



Armed Forces is not as good as formerly, and, should Taiwan be attacked, everyone on the island would certainly unite to resist the enemy. In addition, Taiwan Island has the strait as a natural moat against which the Chinese Communists have little chance to prevail; therefore, Taiwan independence elements feel secure. They believe that the Chinese Communists' "strong reaction" to Taiwan independence would stop at saber rattling.

#### **The Way To Unify China—Multiparty Government**

Since both the Kuomintang and the Chinese Communists oppose Taiwan independence, and since both desire unification, why not jointly seek a road that Chinese all over the world would be happy to accept? What road is this? I believe it is multiparty government. Chinese on Taiwan have already taken the first steps along this road. As mainland author Liu Binyan [0491 6333 7159] said recently (on 11 December 1989) as soon as he disembarked from the airplane in response to an invitation to visit Taiwan, "The Chinese on Taiwan can, why cannot the Chinese on the mainland?" I deeply believe that the Chinese on the mainland have no reason to say they cannot. The ability, wisdom, and courage of compatriots on the mainland is absolutely no less than that of compatriots on Taiwan. Sooner or later, they will be able to tread this democratic road. Compatriots in Taiwan, Hong Kong, and throughout the world must patiently await the arrival of this day.

In case. In case this day arrives too slowly, and in case the Chinese on Taiwan grow impatient with waiting, 10 or 20 years hence, Taiwan is bound to pursue an independent existence. Whether its present name is changed or not, independence will be a sad, yet unalterable, natural fact.

1. See YUANCHIEN TSACHIH [VISION MAGAZINE], 15 April 1988.

2. See Taipei newspapers for 18 April 1988.

#### **Deported 'Spy' Attempts Suicide**

OW1902122690 Taipei CHINA POST in English  
12 Feb 90 p 11

[Text] A mainland Chinese man who had claimed to be a spy for Taipei on the mainland tried to commit suicide when he was deported from Taiwan to Hong Kong, the UNITED DAILY NEWS (UDN) reported recently.

The man, Li Wei-shan, told the UDN in a letter that Taipei authorities had deported him even though he pleaded with them to grant him asylum in Taiwan. He said he had been recruited by Taipei to gather intelligence on the mainland, and that his father and grandfather, both Kuomintang (KMT) soldiers, had been killed by the communists.

In the letter, which was written from Mary Hospital in Hong Kong where he is recovering, Li said he flew to Taipei on a Hong Kong passport on July 3 last year [1989]. He turned himself in to a Taipei police station on

Jan. 6 after Taipei intelligence agencies refused to help him seek residence in Taiwan.

On Jan 25, police forcibly put him on board the M.Y. Macmosa at Kaohsiung Port to deport him to Hong Kong. That night he attempted suicide by slitting his wrists in the cabin.

When he recovered consciousness the next morning, he cut open his abdomen, and when he did not die, he stabbed himself in the chest, he told the UDN.

When the ship's crew found him, they radioed officials at the Victoria Harbor in Hong Kong, who dispatched a steamer to transport Li to the hospital.

Li served as the deputy principal of a foreign language school in Canton [Guangzhou] before he fled to Taiwan via Hong Kong. He said he fled the mainland because he was afraid of being persecuted for his involvement in last spring's prodemocracy movement on the mainland.

He said Taiwan's intelligence agency sent coded instructions to him over the Voice of Free China, the Broadcasting Corporation of China's broadcast on the mainland. His code was 121.

Li said he has a cassette tape on which he has recorded the program which contained instructions for him.

Li said he entered Taiwan on a forged passport which identified him as "Chen Wei-chiang." But authorities said his travel documents were genuine and that he was deported because his entry visa had expired on Dec.26.

If deported back to the mainland, Li could be executed on charges of spying for Taiwan and treason.

#### **Ambassador to Paraguay To Resign, Talks to CIA 'Friend'**

OW1502143190 Taipei Domestic Service in Mandarin  
2300 GMT 14 Feb 90

[From the "National Hookup" program]

[Text] Wang Sheng, ambassador of the Republic of China to Paraguay, stressed on 14 February that his determination to resign from the post of ambassador is very strong and firm. He said that Paraguay is a place for fighting wars and exerting strenuous efforts, and not for enjoying relaxation and pleasure. He said that it requires the efforts of the younger generation to explore and seek development.

Wang Sheng indicated that, while he was taking a connecting flight through the United States on his trip home, a friend who works for the Central Intelligence Agency told him that, judging from the recent development of the situation in East Europe, analysts predict that the Communist Chinese regime may collapse within six years. However, the friend also said that Taiwan will not last more than two years.

After hearing the above information, Wang felt as if a knife were piercing his heart.

Wang Sheng stressed that he has always consistently taken an anticommunist stand and that he is convinced that the Communist Party is doomed to collapse. However, he said, we must not collapse before the Communist Party does. He said that we must [words indistinct] aim at causing the downfall of the Communist Party [words indistinct].

### Civilian Exchanges With Mainland To Expand

*OW2502063290 Taipei CNA in English*  
1543 GMT 22 Feb 90

[Text] Taipei, Feb 22 (CNA)—The government will "actively and aggressively" promote civilian exchanges across the Taiwan Strait in order to bring about "substantive changes" in the Chinese Communist regime.

In an administrative report to the Legislative Yuan, Premier Li Huan said the government would demand that Beijing democratize politics and liberalize the economy on the mainland.

The fiscal report, to be read on the legislative floor Friday [23 February], was sent to the Yuan Thursday.

Even though Beijing still insists on its "four cardinal principles," the Republic of China [ROC] will [word indistinct] to expand civilian contact with the mainland because the spread of the "Taiwan experience" has had positive results, according to the report.

It said Taiwan residents would be allowed to visit the mainland more often, and to stay there longer than they are currently permitted; local scholars and experts would also be permitted to attend international conferences on the mainland.

It expected the increased people-to-people contacts would be carried out after the temporary provisions governing relations between people on Taiwan and on the mainland passes the legislature.

It added, however, that the government may be cautious in adopting positive attitudes toward the mainland because Beijing had not forsaken its plans of a possible armed invasion of Taiwan.

The report outlined major policy goals for the new fiscal year, including administrative reform, political democratization, better grass-roots service for people, diplomatic breakthroughs, and national unification.

The government hoped that by enriching the "Taiwan experience" at home it could elevate the country's international status and take the initiative in realizing a unified and democratic China in which all people enjoy an equitable distribution of wealth.

### ROK 'Not Opposed' to Taiwan Nonpolitical Ties to DPRK

*OW2502063090 Taipei CNA in English*  
1538 GMT 22 Feb 90

[Text] Taipei, Feb. 22 (CNA)—South Korean Ambassador Han Chol-su said Thursday his country does not oppose nonpolitical exchanges between the Republic of China and North Korea.

But the ambassador said the exchanges should be limited to trade and economics and not include the sale of weapons or ammunition.

He said his government hopes that the Pyongyang regime would open up to the outside world, and that the "Taiwan experience" in economic development might be of help in this regard.

South Korea's "northern policy" aims to integrate North Korea into the international community through the influence of Japan, the Soviet Union and Communist China, he explained.

Asked if Seoul's increasing contacts with Moscow and Beijing would affect its "traditional friendship" with Taipei, the ambassador said "no."

As this is a time when economic interests prevail over ideological affinity, Han said he is sure relations between the Republic of China and the Republic of Korea would not be estranged by the ROK's rapprochement with the USSR or Communist China.

"On the contrary," he added, "our bilateral ties will become [words indistinct] our cooperation increases in high-technology areas."

Recent developments in Eastern Europe show that communism might collapse at any moment, and while there was no telling when North Korea or Communist China would suddenly change, South Korea was unlikely to set a timetable for establishing diplomatic ties with Communist China, he concluded.

### Scholars Discuss Taiwan's Political Development

*OW2402043090 Taipei CNA in English*  
0241 GMT 24 Feb 90

[Text] Taipei, Feb. 24 (CNA)—The next six years will be a critical period in the Republic of China's political development, a U.S.-based political scientist said here Friday.

Professor Tien Hung-mao of Wisconsin University said he believed President Li Teng-hui would be able to lead the nation to establish constitutional democracy and full-fledged party politics.

He pointed out that whether or not the country could successfully complete political reform in the coming six years would hinge on President Li's determination and ability to integrate different political views and forces.

Speaking at a seminar on the "Taiwan experience" opening Friday at the National Central Library, Tien said the ruling Kuomintang [KMT] and opposition political parties should first seek a consensus on the following issues:

- Revising the Constitution to determine new regulations for future presidential elections;
- Revising the current regulations governing the retirement of aging mainland-elected parliamentarians to accelerate the rejuvenation of parliamentary branches;
- Supporting President Li's pragmatic foreign policy in order to upgrade the nation's international status.

Tien suggested that the ruling Kuomintang invite the leaders of the opposition Democratic Progressive Party to discuss major political issues and incorporate their opinions into future reform programs. By doing this, he noted, mutual respect might develop between the ruling and opposition political parties, thus paving the way for genuine party politics in the country.

Speaking at the same occasion, Wei Yung, director of the KMT's Yangming Institution on National Revolution and Development, outlined four favorable factors for the nation's future political development:

- The standards of living and knowledge here have gradually been upgraded;
- The local press has become increasingly open;
- The ruling party has started to reform its internal structure and policymaking process; and
- Opposition parties have started to seek more reasonable and effective ways to institute political reforms.

But Wei also cited four worrisome factors in the current domestic political situation: lack of a consensus on future political development; unhealthy parliamentary structure; authoritarian system; and problems with violence.

The two-day seminar on the next stage of the Taiwan experience is being sponsored by the 21st Century Foundation, with hundreds of political scientists and experts from home and abroad attending.

#### **Philippine Trade Union Supports Ties To Taiwan**

*OW2502114790 Taipei CNA in English  
1520 GMT 24 Feb 90*

[Text] Taipei, Feb. 24 (CNA)—The Trade Union Congress of the Philippines (TUCP) supports the passage of a bill that will promote economic and cultural relations between the Philippines and the Republic of China [ROC], according to report from Manila by the FAR EAST NEWS AGENCY Saturday.

TUCP President Democrito Mendoza said the support was contained in a resolution adopted by the Filipino biggest workers' group at the end of its convention today.

The measure, a consolidation of House Bill No. 16421 and House Bill No. 22183, is called RP [Republic of the Philippines]-ROC Beneficial Relations Act which provides for economic, trade and cultural relations between Manila and Taipei.

In supporting for the passage of the RP-ROC Beneficial Relations Act, Mendoza said Taiwanese economic officials have manifested their readiness to extend development incentives to the Philippines.

Meanwhile, Mendoza said that TUCP which is composed of three million Filipino workers, has urged President Corazon Aquino and Congress to review the government's one-China policy.

#### **Radio Commentary on Cheney's Tour of Asia**

*OW2602035790 Taipei International Service in English  
0200 GMT 24 Feb 90*

[Station commentary: "Cheney Reassures Asia on Security"]

[Text] U.S. Secretary of Defense Dick Cheney wrapped up his tour of Asia on Thursday with an assurance to Japanese leaders that the United States is not lessening its commitment to Asian security. Prior to his visit, the United States had unilaterally announced that it would implement troop reductions over the next three years. Cheney assured the Japanese that the reductions would not affect Asian security.

Cheney said the cuts would not involve front-line forces. He also told Japanese Prime Minister Yoshiki Kaifu that cuts are intended to bring about qualitative improvement of the U.S. military presence in Asia. Cheney added that the United States will work hard to minimize anxieties in the region.

The U.S. troop withdrawal comes on the heels of similar announcements in Moscow. Soviet leader Mikhail Gorbachev has promised that the Soviets will withdraw from Cam Ranh Bay in Vietnam, their major base of naval and air operations in Southeast Asia. The move is viewed as a major step toward lessening superpower tensions in Asia.

The U.S. side declined to say how many U.S. troops will be sent home from Japan. But Cheney did report that U.S. forces in South Korea would be cut 10 percent. There are currently 120,000 U.S. soldiers stationed on the Korean peninsula.

On the Philippine leg of his swing through the Asian-Pacific region, Cheney was snubbed by President Aquino. The Philippines has threatened to remove the Subic Bay Naval [Base] and Clark Airbase, unless the

U.S. offers better compensation packages. Aquino may have to write off the bases due to domestic political pressure, as well.

Shutting down of those two bases, the largest ones in the world, would automatically redefine the U.S. military presence in Asia. The U.S. side has braced for this possibility, by planning to move the facilities elsewhere, perhaps to Guam.

Secretary Cheney's assurances to the Japanese will likely be met with mixed feelings in other parts of Asia. On the one hand, free Asians are relieved to know that the United States remains committed to Asian security. The U.S. security net over East Asia has been one of the chief reasons why this region has prospered so much over the years.

On the other hand, most Asians are wary of a U.S. withdrawal that might leave a vacuum to be filled by Japan. The scars from World War II, in which the Japanese militarists occupied almost all of East Asia, still run deep in the minds of people here.

The basic worry is that the United States will push Japan into fending more for its own defense. That may spark another Japanese military buildup, which would serve to rekindle Asian fears of a Japanese return to militarism.

Thus, it is somewhat ironic that Cheney was reassuring the Japanese about U.S. troop cuts. It may have been more sensible for Cheney to reassure everyone else in Asia first. It is understandable, however, that the United States would want to solicit the support of its major ally and the top economic power in Asia.

In any case, we all can only keep our fingers crossed that the trend toward world peace is indeed lasting, and that U.S. reductions in military strength around the globe are based on sound and not on naive idealism.

### **Irvine Ho Nominated National Assembly Secretary General**

*OW2602114990 Taipei CNA in English*  
1506 GMT 25 Feb 90

[Text] Taipei, Feb. 25 (CNA)—Irvine Ho was nominated for secretary general of the eighth session of the National Assembly at the Chungshan Building on Yangmingshan in suburban Taipei Sunday.

He was named at the first meeting of the 85-member Presidium which was selected Saturday.

Hsia Erh-kang and Chen Chuan were nominated as deputy secretary generals after a debate among members of Presidium on Sunday afternoon.

Chen Chuan was the first Taiwan-area assembly member to be selected as a deputy secretary general of the assembly.

The nominations will be presented by the Presidium to the assembly Monday for their endorsement.

### **18 Mainlanders Caught in Attempt To Enter Taiwan**

*OW2702120990 Taipei International Service in English*  
0200 GMT 25 Feb 90

[Text] Police and military authorities have arrested 18 mainland Chinese believed to have been smuggled into Taiwan from Fujian Province on the mainland on a fishing boat. Two other mainlanders fell off the cliff while they were being pursued by the security authorities and are now listed as missing and are feared dead.

The 20 arrived in Ilan County of northeastern Taiwan and attempted to sneak on shore in the evening. Police said that residents nearby immediately informed police of the situation. The group was sent a detention center for mainland residents caught entering Taiwan.

### **Restrictions Eased on Mainland Academic Talks**

*OW2702045090 Taipei CNA in English*  
1544 GMT 26 Feb 90

[Text] Taipei, Feb. 26 (CNA)—Private groups and individuals from the Republic of China [ROC] on Taiwan will be allowed to attend conferences on the China mainland sponsored by international academic organizations whether or not the ROC is a member of the organizations.

The decision was made by the cabinet-level Mainland Affairs Task Force in a meeting on Monday during which it also discussed the draft of a temporary statute on relations between the people on both sides of the Taiwan Straits.

Previously, local private groups and individuals were only allowed to attend academic conferences on the mainland organized by international organizations of which the ROC was a member.

The Monday decision, subject to formal approval, further eases the restrictions on the contacts between the people on both sides of the Straits. The task force, however decided that requests by government employees to attend mainland meetings would be decided on a case-by-case basis.

In reviewing the draft statute on the relations between the two sides of the Taiwan Strait, the special group also decided that local schools, religious organizations, and clan associations would be banned from establishing sisterly relations with their mainland counterparts.

### **Mainland Illegal Entrants Deported**

*OW2702045190 Taipei CNA in English*  
0251 GMT 27 Feb 90

[Text] Taipei, Feb. 27 (CNA)—The 12 mainland Chinese who fled to South Korea and were sent here last December have been deported after the Government determined their true identities, the Exit and Entry Bureau announced Monday.

The 11 men and one woman claimed they had participated in the 1989 prodemocracy movement and were wanted by Communist Chinese authorities. They fled to Cheju Island of South Korea in an attempt to seek asylum in the Republic of China [ROC].

Government authorities, however, have confirmed that none of them had participated in the Tiananmen prodemocracy demonstrations which were brutally crushed June 3-4.

ROC investigators also discovered that they had been criminals, failed businessmen or troubled with family disputes, and all except for a man had used pseudonyms and fake educational backgrounds to enter the country.

### **Legislative Presidential Election Causes Tension**

*OW2702045490 Taipei CNA in English  
0240 GMT 27 Feb 90*

[Text] Taipei, Feb. 27 (CNA)—Tension rose again Monday as the ruling and opposition parties prepared for clashes over the Tuesday election of the Legislative Yuan's president and vice president.

Acting Yuan President Liang Su-yung issued a hardline statement warning that any legislator who used violence would be arrested as a person in flagrante delicto. "Any legislator using violence will be arrested and handed over to the prosecution immediately," said Liang, the Kuomintang [KMT] nominee for the parliamentary speaker.

The Taipei City Police also vowed to disperse any illegal assembly or demonstration, and to forcibly disperse or arrest all violators of police orders. Between 7 AM and 6 PM Tuesday, the police said, traffic around the Yuan Building would be controlled or banned, if necessary.

The Government seemed determined to prevent a repetition of last Tuesday's riot around the Yuan. The violent clashes, together with disturbances during the National Assembly meetings, have triggered deep worries among local people, and worsened the domestic investment climate.

Intellectuals and religious people joined government officials in urging peace and patience in regard to the retirement of the senior parliamentarians, the focus of the parliamentary clashes. But their calls for reason and peace might well go unheeded by opposition Democratic Progressive Party [DPP] lawmakers who disagree with their KMT counterparts on Tuesday's Legislative Yuan schedule.

Chen Shui-pien, secretary general of the DPP Legislative Yuan Caucus, insisted that Tuesday's Yuan session be a "plenary meeting," instead of an "election of yuan president and vice president" meeting. DPP lawmakers apparently planned to boycott the election by raising procedural and other issues even before the Yuan got down to voting for the president and vice president, just as they had done last Tuesday.

Chen's KMT counterpart, Jao Ying-chi, said the Yuan's president and vice president "must be elected Tuesday, no matter what."



### Assessment of Macao's Politics in Transition

90ON0201A Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 238, 1 Nov 89 pp 93-95

[Article by Li Ping-shih (2621 3521 2514): "The Main Line of Macao's Political Situation During the Transitional Period"]

[Text] The major issues in Macao today are localization of civil servants, legalization of the Chinese language, and localization of the law. The issue of the "three -izations" involves the interests of Macao, China, and Portugal. The development of the "three -izations" issue is tending to emerge as a confrontational situation between the Chinese and Chinese society in Macao on the one hand and Portugal and the locally born Portuguese on the other.

Macao in the transitional period faces the important issue of the "three -izations" [sanhua 0005 0553], that is, localization of civil servants, legalization of the Chinese language, and localization of the law. Macao, China, and Portugal have some major interests related to the issue of the "three -izations."

#### How Do China and Portugal View the "Three -izations"?

Macao Chinese are happy to see the early realization of the "three -izations" in order to eliminate various inconveniences in their lives. These inconveniences are expressed as various problems faced when dealing with government departments or handling matters related to the law since they do not know Portuguese. The "three -izations" means that better paying civil service jobs will be open to Chinese society.

The Chinese, of course, are active promoters of the "three -izations" and their political reasons are very clear. After reversion in 1999, Beijing cannot use a language unfamiliar to them to keep channels open and have any influence on a government in a special administrative zone where many officials still maintain foreign citizenship. In other words, the Chinese and the Macao Chinese have a common interest in the "three -izations."

However, for Lisbon, a more restricted and unhurried "three -izations" process conforms better to the last 10 years that Portugal will spend in Macao. Portugal is concerned that hurrying the "three -izations" may have an impact on the normal operations of Macao's public administration so that it will be unable to manage society effectively. In fact, officials who come from Portugal on the other side of the globe always have enormous difficulty understanding Macao's social situation and the operations of midlevel and lower-level government departments, while the middle, upper and even highest level posts in the government even more are the last bastion for them to safely obtain the right to make decisions on Macao affairs.

Portuguese Government and Chinese society are the two worlds that have been forcefully combined in the building of Macao over the past few hundred years.

Generally speaking, the major capitalist stratum of the financial, real estate, industrial, and commercial worlds basically belongs to the pro-Chinese forces politically. There are only two people who are exceptions: one is Mr. Ho Hung-shen [0149 7703 8590] and the Macao Tourism Company Ltd., which he represents; and the other is Ms. Ts'ao Ch'i-chen [2580 0366 4176] and the Macao Textiles Company Ltd., which she represents. They do not have most of their capital invested in Macao or the Chinese mainland and this means that they do not have to rely on either China or Portugal, but the Chinese and the Portuguese are both trying to lure them to their side.

#### Can the Chinese Masses Form a Force?

Right up until 1979 almost all the laborer and poorer strata of Macao were within the Chinese sphere of influence. Beginning in the eighties, with the influx of new immigrants from the mainland, this situation changed. The new immigrants' roots were not in Macao and they had no traditional contacts with the pro-Chinese grassroots-level organizations, and the basic domestic guarantees of recognition of legal status, employment, and housing for which they fought differed from the social demands of the original residents. For this reason, a void appeared on the Portuguese side in seeking support in the lower levels of society, while the government's methods of attracting them was to implement a housing policy and at the appropriate time give them the legal status of residents and to establish agencies to help them find jobs. The Chinese side didn't dare be lax about this either and, in response, created a social relief foundation started by the pro-Chinese to gain the good feelings and identification of the grassroots-level classes.

The new immigrants' social demands and the growth of social issues intimately related to the plight of the grassroots-level classes since the beginning of the eighties has created the sudden appearance of a new type of political figure. Currently through direct elections they control 17.6 percent of the seats in the Macao legislature and in the organized conventional political power structure have become a "third force," relatively independent of China and Portugal.

After the mid-1970's, Macao's economy gradually began to take off and, with the reform and relaxation in China, these factors caused the political atmosphere which had gradually enveloped Macao society since the sixties to decline. In terms of the orientation of political attitudes, Macao young people who have grown up in the past 20 years are still a group which is drifting, malleable, and unstable.

The Portuguese have clearly taken note of this situation. In the past few years the Portuguese Government of Macao has taken the initiative in sponsoring social activities for students and young people and recently even formulated a clear youth policy to increase the centripetal force of young people for the government.

During the Sino-Portuguese talks, the Chinese began to be aware that young people would be the backbone of society after Macao reverts to China at the end of the nineties and, thus, pro-Chinese groups announced they were resuming the youth work they had stopped nearly 10 years ago.

The rise of intellectuals in Macao as a fairly influential social group is something that happened after the beginning of the eighties. At present, through localized planning, the government has attracted some Macao Chinese to take on public office. However, the Portuguese have never had a group of first-rate Chinese who were loyal to the suzerain state as the English had in Hong Kong. As for the Chinese, through Chinese-funded organizations in Macao, they have attracted Macao University students to go to China for study, but up to now there has been no clear indication that they have shown any talent in the Chinese-funded organizations. Neither the Chinese nor the Portuguese have expressed any positive attitude about attracting Macao Chinese intellectuals.

Overall, Macao's intellectuals are still in a scattered, individualistic, drifting state and have not formed a powerful sociopolitical force. One reason for this is that Macao still does not have a strict professional qualifications approval system, so the specialized image of intellectuals and their social position has not yet been fully established. In addition, unlike in Hong Kong, an organized political faction of intellectuals that has the achievement of democracy as its primary goal has not yet appeared in Macao. Although the legal circle is a special example among professional circles in Macao, its members are all Portuguese or locally born Portuguese and they have strong pro-Portugal leanings. And in Chinese society, apart from physicians, there is no clearly pro-Chinese or pro-Portuguese intellectual group.

The existence of "locally born Portuguese" among the people in various walks of life is a major feature of Macao's political situation.

"The government of Macao is a government of locally born Portuguese." Although this statement isn't precise, neither is it an exaggeration. In fact, these people, who are of mixed Chinese and Portuguese blood and who in ethnic inclination and cultural attitudes identify with Portugal, make up the main force of midlevel government civil servants. They are in charge of many important document files, are familiar with procedures, can speak Cantonese, and, in terms of possession and release of information, they have a great deal of invisible authority. Without them, the Portuguese officials who come from Lisbon would have a great deal of trouble in administration and management.

Except for a few lawyers, the only way out for locally born Portuguese is to obtain higher pay and promotion in a government department, but the existence of Portuguese officials has restricted their opportunity to enter high levels. The contradiction between locally born Portuguese and native Portuguese has made it impossible

for the Portuguese to obtain a solid internal political unity when bargaining with the Chinese over the Macao issue.

There is a subtle, unstable relationship between the locally born Portuguese and the Chinese. In some political incidents in the past, locally born Portuguese have had a tendency to fight for self-rule for Macao and, therefore, the Chinese are a little wary about this and may not be happy to see them enter the higher levels of government. However, on the other hand, if the locally born Portuguese lose hope in the future and their morale sinks lower during the transitional period, there are bound to be problems in the normal operation of government departments, and such negative phenomena as corruption, work slowdowns, and bureaucratism may develop perniciously. It is not hard to imagine that in 1999 the Chinese will be unwilling to accept a Macao Government on the verge of paralysis. Therefore, the Chinese are both on guard against the locally born Portuguese and also giving them some comfort, such as supporting their leaders to become representatives in the legislature and allowing them some power.

But, nevertheless, during the transitional period locally born Portuguese will become an important political bargaining chip for Portugal. In the unavoidable process of localization, an outstanding phenomenon of personnel changes at the higher levels of government will be the promotion of locally born Portuguese. In a situation in which Chinese and locally born Portuguese are both "local people," but there is no pro-Portugal elite Chinese group, locally born Portuguese will undoubtedly gain greater political trust on the part of Portugal. On the other hand, the long-term existence of locally born Portuguese is also beneficial to maintaining Portugal's influence on the Macao Special Administrative Zone after the transitional period, and, hence, after 1999 will make Macao continue to be beneficial to Portugal.

The Chinese side clearly does not think this way. What they expect is localization, with the Chinese as the main body, or at least localization with Chinese as the main body of high-level officials, otherwise it will be difficult to ensure that there will be no centrifugal tendencies in the special zone's government after 1999. Thus, the localization issue has become one of the most important areas of Portugal's comparative political weight in the transitional period.

Macao's religious circles should also be mentioned. The Eastern religions in Macao long ago became part of the united front of the Chinese side. The various denominations of Christianity, which had its origins in the West, have heretofore stressed internal religious affairs and have very rarely become involved in politics. The expressions of the Catholic church have been more outer directed, and during the sixties it and the leftists were diametrically opposed. In the past 20 years it has avoided direct involvement in politics, but the district and youth organizations under its jurisdiction have

worked hard to develop citizen education and information with a Western democratic viewpoint, and from this created an independent political and ideological center.

#### **Will Macao and Portugal Revise the "Macao Organizational Constitution"?**

Revision of the "Macao Organizational Constitution" during the transitional period will be an important political event. The "Macao Organizational Constitution" is a product of Portugal's "noncolonized" policy, which was implemented with regard to Macao after the revolution of 1974, and is characterized by the establishment of fairly independent legislative powers and a single-house parliament—the Legislature—over 70 percent of whose representatives are elected by local people. The governor general, who continues to embody a sovereign ruling position, is appointed by the president of Portugal, and, in addition to exercising administrative authority over Macao, also holds some legislative authority; about 30 percent of the seats in the legislature are appointed by the president.

In the first two elections for the legislature, in 1976 and 1980, the Chinese got involved only in the indirect elections, supporting pro-Chinese capitalists to become involved; this led indirectly to a situation in which a political group of only locally born Portuguese who participated in direct elections monopolized all directly elected seats.

In the third and fourth legislative elections, in 1984 and 1988, the Chinese side increased its influence in the legislature. It organized a campaign alliance of Chinese representatives and locally born Portuguese representatives and became involved in direct elections. On the one hand, it supported involvement of Chinese grassroots-level citizen representatives through direct elections, and, on the other hand, the ballots of native-born Chinese presented a "united front" to the locally born Portuguese, allowing their leaders to continue to obtain seats.

In other words, the Portuguese can predict that their power to influence the transitional legislature will gradually weaken. Their outs would be to revise the "Macao Organizational Constitution" while the influence of the Chinese side on the legislature is growing with each passing day, in order to find a way to limit the legislative authority of the legislature or increase the governor general's checks on the legislature; and, to think of a way to increase the governor general's executive authority and legislative authority in order to ensure and increase total control of the progress of the "three -izations" so that Portugal's effective control of Macao can be maintained until 1999.

As for the attitude adopted by the Chinese side, it is estimated that it may expect the relationship of Macao's executive and legislative powers to remain largely the same. It would prefer that there not be greater demands for legislative authority on the part of the legislature, but

it would rather not see the executive authority of the governor general be expanded further.

#### **The "Three -izations" May Lead to Political Confrontation**

The issue of the "three -izations," especially the issue of localization, is the main thread for resolving the Macao's overall political work during the transitional period. First of all, all Chinese social groups in Macao, whether their political attitude is pro-Chinese or relatively independent, are supporters of the "three -izations." In the localization process, if the Chinese continue to enter middle- and upper-level posts it will pose a serious threat to the traditions of locally born Portuguese, that is, their interests, and the political consequences will be that the united front relationship of the Chinese side with the locally born Portuguese will tend to disintegrate and the locally born Portuguese will fall completely to the Portuguese side politically and become the agents of Portugal in Macao. In other words, the development of the "three -izations" issue will evolve gradually into a political confrontation divided along completely different ethnic lines, with one side consisting of the Chinese side and Macao Chinese society, and the other side consisting of Portugal and the locally born Portuguese.

The politics of Macao in the transitional period are different from those of Hong Kong. Hong Kong people basically think that the less Chinese interference the better, but Macao people are satisfied with the political situation because they do not have the Hong Kong people's respect for a certain degree of representative government. Macao people do not oppose the speedy implementation of the "three -izations" under Chinese pressure, because the "three -izations" express their more urgent interests. Compared with the "three -izations," their political problems are relegated to a more secondary position.

In addition, the Government of Macao also does not have the same "lame duck" image as the Hong Kong Government. Under Chinese pressure, Portugal has not readily yielded on the "three -izations" issue and there has been nothing the Chinese could do. In fact, because of objective historical factors, a rapid "three -izations" process will face enormous technical problems, which, if badly handled, may lead to executive crisis and social unrest. This point has become a trump card in the hands of the Portuguese side; the Chinese side has held back for fear of involving good people and when pressure must be restrained.

Without a government of Portuguese and the Portuguese language there is no Portuguese rule of Macao. The continuation of these two depends on Portugal's interests in Macao transcending 1999. These two elements are a major stumbling block to China's realization of a political situation dominated by the executive in post-1999 Macao. Although the June events in Beijing spurred the democratic hopes of Macao, it caused some

conflict for pro-Chinese groups, but these near-term changes in the situation basically should not influence the analysis of this essay.

### **Vietnamese Boat People Continuing Issue**

90ON0259A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE MIRROR] in Chinese  
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[Article by Hsiao Shan (2556 1472): "How Hong Kong's Boat People Problem Came About"]

[Text] The most urgent and serious problem, one with the highest visibility, facing the people and the government of Hong Kong today is the question of the Vietnamese boat people.

### **Development of the Problem**

The first Vietnamese refugees originated with the end of the Vietnamese conflict in 1975. At the time, after the U.S. military withdrawal, many Vietnamese began fleeing South Vietnam. According to estimates, about 3,743 people fled to Hong Kong. After 1978, the impact of the Vietnamese political and economic conditions aggravated the exodus. More than 66,000 refugees arrived in Hong Kong during the first seven months of 1979, with the yearend total topping 68,700.

In July, 1979, 65 United Nations members held a conference in Geneva to tackle the Vietnamese refugee question. The agenda covered three main areas: Vietnam must effectively control the disorganized departure of its people from its soil; Southeast Asian countries would be the first havens for Vietnamese refugees on a temporary basis; and Western nations would admit refugees from this first area. The British Government concurred on behalf of Hong Kong, its crown colony. Having no say in the matter, Hong Kong, on a "temporary care" basis, took on this 10-year burden with no clear end in sight.

### **Hong Kong Has Spent HK\$1.5 Billion Caring for the Vietnamese Refugees**

To ward off further inroads, in July 1982 Hong Kong began operating restricted refugee camps, which provided that those who had arrived before 2 July 1982 could continue to live in unrestricted camps. Those who came after that date did not have freedom of movement, but were confined to the camps. In April 1986, after careful screening, 250 refugees were accepted as legal residents.

In mid-June 1988, Hong Kong resumed a classification policy. All those determined to be "nonpolitical" refugees were restricted to the centers awaiting deportation to points of origin. Only those classified as "political refugees" were given aid to migrate abroad. Concurrently, consideration was given to a gradual opening of the restricted camps. But the classification policy contradicted the original purpose of acceptance, plus the "scare tactics" failed to stem the tide. In July 1989 alone,

more than 23,000 additional people arrived, exceeding the combined total for the period of 1982 through 1987.

According to reports, more than 200,000 Vietnamese left Hong Kong to go abroad. At the end of November 1989, there were still more than 12,000 refugees, and more than 45,000 boat people. In the past 10 years or so, the Hong Kong Government has spent over HK\$1.5 billion [Hong Kong dollars] caring for the refugees and the boat people. More serious is their disruptive effect on public order. They have feuded with weapons inside the centers, insulted women, attacked police officers, and escaped to steal or to molest women. The Vietnamese boat people crisis has deteriorated into a social crisis.

In recent days, there have been fasts inside the boat people camps, and there are reports of plans to escalate activities to fight deportation. Behind the incidents are reportedly agitations by so-called foreign "humanitarian" agencies. The boat people problem affects various people and organizations, among them Hong Kong's citizens, the boat people themselves, the Hong Kong Government, and Western nations with their various organizations. And the situation becomes more critical with each passing day.

### **Hong Kong Carries a Big Burden**

Implementation of the areas agreed upon at the 1979 Geneva conference has met with varying degrees of opposition. Yet Hong Kong, which had no say in the matter, is still trying to swallow the bitter and ineffective pill forced down its throat by its mother government.

The conference agreed to ask Vietnam to restrict the unorganized exodus from its territory. In reality, the Vietnamese Government has not done anything effective in this area. The long-term deterioration of the Vietnamese economy at the end of the conflict must be considered a major reason for the boat people's flight. In recent years, Vietnam has been short of food and the people are poor. According to reports, in April 1988, 7.75 million Vietnamese did not have enough to eat, and the inflationary rate for the period had jumped 1,000 percent. For all of 1988, about 18,000 people reached Hong Kong, five times more than in 1987. The number arriving in 1989 was unprecedented. The accord reached at Geneva on this point has been a total failure, and there seems to be no prospect of improvement in the near future.

The Geneva conference agreed that Southeast Asian nations would provide the initial temporary havens. These and other nations adjacent to Hong Kong also faced a large-scale influx of refugees, but they have abolished the safe haven policy (including economically thriving Singapore). According to statistics, in 1979, 53,996 boat people arrived in Malaysia, 48,651 reached Indonesia, 11,928 in Thailand, 7,821 in the Philippines, 5,451 in Singapore, and 3,350 to Macao. But, later, many countries took a number of actions to bar further entry. For example, Malaysia began towing boats back out to sea, Thailand stocked boats with adequate water and



provisions. Many countries squirmed out of the dilemma by being a haven in name only. And, as Hong Kong has been an economically shining light and has not rejected anyone, it became a favored destination.

Another agreement reached was that the Western nations would accept the Vietnamese from these havens. In reality, these countries have not honored their pledge, they have been passive in attitude and have not put full energy into the matter. From 1979 to 1981, the Western nations at least seemed to acknowledge the agreement, and admitted 80,000 refugees collectively. But, in 1982, Hong Kong's mother country, Great Britain, abruptly led the way in reducing the number admitted—taking in only 241 for the year, or about 2.6 percent of the quota. Others followed suit. For example, beginning in 1983, the United States also reduced its quota—in 1982 it had admitted 72 percent of its quota; in 1983 it went down to 49 percent.

As a cumulative result of the above, Hong Kong received increasing pressure to admit Vietnamese refugees. In the early years, many had already pointed out the desirability that Hong Kong abolish its initial safe haven policy, but this met with adamant opposition from the Western nations. As a compromise, Hong Kong began its "classification" policy.

#### **Pitfalls of the Classification Policy**

The so-called "classification" policy means simply that, in the days to come, the refugees in Hong Kong will undergo screening and categorization. Those classified as "political refugees" may move to the West, but the West will not take those boat people who are "nonpolitical" refugees.

In carrying out the "classification" policy, boat people in Hong Kong have been placed into big groups:

1. Vietnamese refugees. Those who arrived before the effective date of the "classification" policy in June 1988, will collectively be considered as "Vietnamese refugees," that is, included in the same class as "political" refugees who arrived after the policy went into effect. To the end of November 1989, this amounted to 12,700 people.
2. Vietnamese boat people. Into this group have gone all who arrived after the policy went into effect and who did not receive the "political" refugee designation. At the end of November 1989, these numbered 44,300.

It should first be noted that the "classification" policy is meant to serve the Western nations. The goal of the West is not to solve the "boat people" problem, but the "refugee" question, in other words, those "political refugees" who qualify for "political shelter." Although, in Chinese, "boat people" (chuan min) and "refugee" (nan min) are only a word apart, they hold great political significance in the eyes of the West. The opening up of the camps of the "real political refugees" became the next logical step in the conclusion of the Hong Kong Government. As for these "boat people," the Western

nations merely mouth sentiments such as there should be no forced repatriation on humanitarian grounds, but they steadfastly refuse to accept them. What to do? Actually, the "classification" policy has "localized" a sticky international problem.

Moreover, the policy itself has harbored certain questions even without considering its objectives and effectiveness. One of them is that the policy is time-consuming. At the present rate, it will take two years to complete classifying 12,000 boat people. But even as it is in progress, more boat people flood in, and the rate of classification simply cannot overtake the rate of new arrivals. As some pointed out, if the policy is to be executed, time is of the essence, and people doing it must be better trained. The United Nations International Refugee Organization should shoulder all or part of the cost. But at present it already owes Hong Kong more than HK\$100 million.

If the policy is really to be effective, the logical thing to do is to carry out the policy in tandem with repatriation as well as Western acceptance of the boat people. If those people who have been screened out have nowhere to go, then Hong Kong is merely digging its own grave. The International Refugee Organization and the Western nations have already clearly stated that they are not responsible for "nonpolitical" refugees. If the question of repatriation of boat people is not adequately planned and effectively executed, then an effective policy must be found to stop the continued flood of new arrivals. Otherwise, "classification" and "intimidation" will surely fail.

The truth of the matter is that "classification" and "intimidation" have clearly failed to stop the influx. Since the "classification" policy started, not only has there been no decrease, the first seven months of 1989 saw the arrival of more than 23,000 people, which exceeded the sum of all arrivals from 1982 through 1987 and also topped that of all of 1988. Looking at this, earnest repatriation is one of the must-do actions. At the end of November 1989, Great Britain's Deputy Foreign Minister MacArthur stated that aggressive implementation of the repatriation policy will start in February or March 1992. The British Government agreed confidentially to give each boat person \$620. We feel that a vital link to this policy to solve the fundamental boat people problem is to emulate the other Southeast Asian nations and abolish the initial safe haven policy.

#### **Abolition of the Initial Safe Haven Policy is Fundamental**

The initial safe haven policy is the basic reason for the waves of Vietnamese boat people, so its elimination is also basic to the solution. If this is not resolved, and the Hong Kong Government stays on its current course by continuing to hold, classify, categorize, and then separate them for migration or repatriation, the problem will recur and, by 1997, the problem will remain unresolved.



Abolition of the policy will end Hong Kong's role as a place to stay or as a jumping off point to elsewhere. As everyone knows, Hong Kong's policy has been to deny entrance to illegal entries from China and everywhere else, and there is no reason to favor the Vietnamese. Many Hong Kong residents have relatives in China, yet they must line up to apply for entry, over 50 "document-less mamas" have had to wait more than 20 years before they can reunite with their young children. If the overwhelming majority of Vietnamese boat people know that they can neither stay in Hong Kong nor move elsewhere, they will change their minds about coming.

At present, the overwhelming desire of a majority of Hong Kong's people is to terminate the policy. According to Radio Hong Kong's poll in August 1989, more than 60 percent of those surveyed considered the boat people a grave problem, and 85 percent support ending the safe haven policy. In a questionnaire survey in September in the central and western districts, 90 percent supported ending the policy. These people had not been directly much affected by the boat people, so their views might be considered to be more objective.

#### **The Powerlessness of "Humanitarianism"**

And on the international scene, only one or two nations such as the United States oppose forced repatriation, yet Hong Kong bows to its pressure. One reason is "humanitarianism." And Vietnam, groping for economic reward and other self-interested benefits and considerations, also opposes.

The controversy about "humanitarianism" will not be debated much here, but one point should be noted. As with many things in the world today, humanitarianism is not absolute or unconditional. It must be discussed on a solid economic and social base. In today's world, the foremost obligation of a national or local government is to its own people. The people of Hong Kong take a back seat to no other country in what they have done and labored for on behalf of the boat people. For this, Hong Kong has paid a substantial price. As a matter of law, it has not been a responsibility or service pledged by itself. In humanitarian terms, such a tiny spot on earth as Hong Kong has kept the faith in what it has done in the past 10

years. Besides, continued incarceration of those who have nowhere else to go (the consequences of releasing them are unthinkable) can hardly be considered humane. If they can be repatriated to Vietnam without dire consequences, then one might not have to question its humaneness.

As everyone knows, repatriation is a standard international practice in dealing with illegal immigrants. Hong Kong does that to illegals from China. Great Britain and the United States do the same. The United States does it daily as a matter of course concerning illegal immigrants from Central America, Mexico, and the Caribbean. But the United States waves high the banner of "humanitarianism" in opposing Hong Kong's repatriation. How can one be convincing if one uses such a "double standard?" And can humanitarianism explain away all these facts? Actually, in many cases it is inevitable; many countries today simply cannot exercise a "free immigration" policy. Things cannot happen just because they want them to happen. Humanitarianism is conditional.

Such countries as the United States and Great Britain love to preach humanitarianism. People will not be able to resist asking, "Then why don't you accept the agreed-upon number of Vietnamese refugees set at the 1979 Geneva conference and thus reduce the number stuck in Hong Kong? If your humanitarian policies have been executed so smoothly, then why can't your vast territory absorb the boat people now stuck in tiny Hong Kong?"

#### **The Vital Link Is the U.S. Attitude**

The real situation is that the United States is using humanitarianism to hide its foreign policy strategy and self-interest motives. It completely ignores Hong Kong's difficulties, even opposing the accepted international practice of repatriating illegal immigrants, yet not proposing anything that could effectively help Hong Kong. It spouts forth protestations of humanitarianism, but is hypocritical in its true actions.

As those boat people stuck in Hong Kong are about to be repatriated, the question now is how to find quickly a once-and-for-all solution to the Vietnamese problem. The emotions of the people of Hong Kong are reaching a high tide and will not long tolerate further stagnation in this situation.